398.

CENTRAL AMERICA INDUSTRIAL SUPPORT NETWORK

THE CAISNET EVALUATION

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CAISNET EVALUATION

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EXECUTIVE SUMMARY

In the early 1990s IDRC began to explore the possibility of transferring innovative, technological advisory services from Asia and Canada to Central America to address the problems of small and medium-size manufacturers (SMIs): low productivity, outdated technology, inadequate marketing, low product quality, and poor management skills.

These problems were to be addressed through business advisory services and networking. As of July 1998, five advisory units were linked together in a regional network that was supported by a coordinating unit with links to Canada. This network was called CAISNET - the Central American Industrial Support Network or "la Red" in Spanish.

Although the first unit was established in Guatemala in 1994, the idea for CAISNET was developed by CODETI in 1991. Between 1994 and 1997 six units were set up, one in each of the Central America countries and two in Honduras, at an estimated total cost of $3.5 M for IDRC and for its regional sponsors. In March 1996, CAISNET received additional funding of $1.1 M from CIDA's PAR program to expand and strengthen its network.

Since IDRC's agreements and the CIDA funded PAR contract terminate in the next six months, the Canadian donors commissioned an evaluation of the performance, sustainability and impact of the CAISNET project.

The key finding of the evaluation is that the national units are providing needed and beneficial advisory services to SMIs in five of the eight major industrial centers in the region. Although the impact of these services cannot be determined in any quantifiable way, they seem to be satisfactory to the SMIs, the paying beneficiaries. To date, none of the national units or the network are sustainable. A "best guess estimate" is that the units have achieved an earnings to cost ratio of between 2% to 50%. The coordinating unit is 100% funded by donors except for the services of one professional.

The major conclusion of the evaluation is that the "value added" of the network to SMIs is nil. If CAISNET were simply five national units connected regionally via the Internet, the same quality of service could have been provided to more SMIs at substantially lower costs.

Because the funding arrangements supporting CAISNET are terminating shortly, the major recommendation of the evaluation is to fund a bridging proposal for one year to allow a smooth transition to the next phase of CAISNET. Over twelve months the priorities should be for:

National Units:	Improve operational performance and earnings
Coordinating Unit:	Terminate the existing contracts and provide technical assistance to the units
Sponsoring Bodies:	Fully integrate the units into their organization
FECAICA:	Determine the "value added" of its network and present an operational proposal to CIDA and IDRC by March 31, 1999
The Alliance:	With FECAICA, develop a proposal for institutional strengthening of FECAICA members and/or develop a proposal for BTOs. Seek funding for this proposal outside of the CAISNET project.
CRC Sogema/PAR:	Extend the FECAICA/PAR contract to April 30, 1999. Settle all outstanding payments.
IDRC:	Close the agreement with CONICIT for UDATE.
CIDA and IDRC:	Terminate existing contracts. Fund the bridging proposal. Hire a Bridging Manager/CAISNET Project Manager. Hire outside legal services to determine the ownership of the tools.

The Bridging Proposal and the Framework for the proposed new phase are outlined in the other report of this evaluation.

At a minimum, CIDA and IDRC should continue to fund the national units connected regionally via the Internet.

The evaluator found that all CAISNET players are deeply committed to a regional network that has links to Canada. The evaluator shares this commitment. The challenge is, therefore, to develop a network model that can be articulated in terms of benefits to SMIs.

EVALUATION FINDINGS

Project Rationale

1. The primary target group for this project, SMIs, are a small, often overlooked, but important segment of the region's industrial sector.

2. CAISNET meets IDRC's, CIDA's and the Central American Governments' economic and development goals.

Results at the Project Beneficiary Level

1. Depending on the reference plan consulted, CAISNET is over or under the number of clients expected to be reached during the funding period. The network served 506 clients. This was 106% of the IDRC target but only 75% of the PAR target in 30 to 36 months.

2. The intended impact on the firms in terms of increased competitiveness and profitability cannot be demonstrated from client files. Informal surveys indicate that while firms are satisfied with the services received, they are not able to quantify their benefits in the usual business terms.

3. The national units have provided acceptable consulting services to the regional target market but these can be considerably expanded. Only 3% to 4% of the estimated number of regional SMIs have paid for the business advisory services offered by CAISNET.

4. The consulting services are not as accessible to SMIs as they could be. Only one of the five units offers services at the same rates to both members and non-members of the Chamber or Association. Consulting rates vary from US $12 to $45 per hour (US $96 to $360 per day). These rates are generally lower than private sector management consulting firms. The SMIs, donors and Governments surveyed, however, consider rates beyond US $25 to US $30 per hour, (US $200 to $240 per day), as too high.

5. CAISNET services are usually, though not always, focused on SMIs. Between 7% to 25% of clients are large firms with more than 100 employees in the three most active units.

6. There has been no consistent gender-disaggegated reporting on clients served. Few female SMI owners have, however, been clients of CAISNET.

Network Results

1. CAISNET claims to provide advisory services to the region but it operates in only five of the eight major industrial centers in Central America. Services are not available in San Pedro Sula in Honduras, Panama City and Belize City.

2. The regional network was created to enhance services to SMIs by sourcing information and technology from other countries. From the interviews and documentation the evaluator was unable to discover any SMI which had received benefits from other countries in the region. The major and most important finding of the evaluation is that the "value added" of the regional network to SMIs is insignificant.

   In fact, if CAISNET were simply five national units connected regionally via the Internet, the same quality of services would have likely been provided to more SMIs at substantially less cost to the donors and to the sponsoring agencies.

3. CAISNET's link with Canada, again intended for the purpose of enhancing benefits to SMIs, contributed little to project results. There were no business deals reported between clients of CAISNET and Canadian firms. The main beneficiaries of the Canadian connection were FECAICA and its members, the delivery channel to SMIs, and not its primary target group, the SMIs.

The Project Delivery Channel

General Observations

1. There is apparent confusion over the name of the Project. It has been called CAISNET, CODETI/FECAICA/CAISNET, FECAICA/CAISNET, and CODETI/CAISNET.

2. There is apparent confusion over the "ownership" of the project. The units appear to be "foreign projects" in the Chambers and Associations. The coordinating unit appears to be the property of CODETI. Several participants indicated they wanted the donors to transfer the project to their stewardship, suggesting that they thought the donors owned the project.

The National Units

1. Six national units were set up but only five are connected to CAISNET. The other unit, UDATE in Honduras, is non-functional but it is still an "official" network unit from IDRC's administrative perspective.

2. The five national units employ 29 persons (20M/9F). The professional staff have university degrees in engineering, computer science and/or business, and experience in industry, varying from 8 to 16 years to 0 to 2 months. As most of the technical advisors are young, they must, therefore, work harder to establish their credibility with SMI presidents and managers. Unit staff are keenly committed to this project despite start-up difficulties. They are a critical resource in the success of this project.

3. It appears as if three units are on the verge of becoming international donor project administrators and/or multi-purpose membership service centers. They were intended to be single-purpose business advisory centers. This dilution distracts staff time and effort from generating revenues.

4. As a group the technical advisors are highly regarded by their sponsoring organizations but they are poorly treated as employees. Those with a high degree of education and experience are inadequately paid. Few CAISNET employees have access to the social benefits of other Chamber or Association employees. The unit's incentive package is poorly structured. Many of the more desirable training opportunities involving travel have gone to unit directors or Chamber and Association representatives who infrequently interact with clients, rather than to the technical advisors who service clients continuously.

5. The Information Advisor contributes little to the unit's services to SMIs and to its earnings.

6. Most units have adequate computer equipment and office furniture, although additional purchases in several units would add to the efficiency of the technical advisors.

7. The units could improve the effectiveness of their consulting service if each unit were equipped with an overhead and a screen for client presentations.

8. Only one unit, Nicaragua, has adequate office facilities. Several units are housed in cramped quarters compared with the space allocations of other departments and divisions within the Chamber or Association.

The Coordinating Unit

1. The coordinating unit services provided by CODETI under a subcontract agreement with FECAICA, have been, generally speaking, adequately performed.

2. The subcontracting agreement FECAICA signed with CODETI was inadequate. It specified the tasks expected but did not

include a budget for the services CODETI was to provide. This lead to the impression that CODETI was "enriching" itself from project funds when, in fact, the cost of the coordinating units services were distributed among the 13 activities of the FECAICA/PAR contract budget. This budget was apparently reviewed and approved by all FECAICA members.

3. The coordinating unit staff doubled from two under the IDRC/FECAICA/CICR structure to four under the FECAICA/PAR structure. This increase was justifiable because of the greater administrative complexity and expanded activities of the FECAICA/PAR project.

4. The cost of the coordinating unit is fully supported by donors' funding with the exception of the services of the CODETI President's wife, an experienced international development professional. Her full-time services are provided free of cost to CAISNET by CODETI.

5. It is not clear whether or not FECAICA/CICR made their required local contribution of approximately $84,000 to support the work of this unit as agreed to with IDRC.

6. The existing structure of the network is too expensive for the network members to sustain over the long term.

7. FECAICA has no long-term plan as to how the unit's operating costs will be funded after donor funding ends.

8. FECAICA members are highly dissatisfied with the quality of the services provided by CODETI. Still, several unit directors, important "clients" of CODETI, think the coordinating unit is doing a reasonable job, given the circumstances. Most of the units' staff are indifferent, do not know, or would not comment.

9. The evaluator finds that much of the personal antagonism towards CODETI, specifically its President, comes from the complex structure of the project. Among key project decision-makers, including donors, there is incomplete and inaccurate knowledge of contractual agreements and budget structure. Complexity often leads to confusion and misunderstanding.

Pilot Project and Diagnostic Tools

1. The pilot project, conceived by CODETI and funded by IDRC, an agency specializing in applied research, was poorly structured as an experiment. Nevertheless, the diagnostic tools under testing were successfully developed and transferred to the national units.

2. The use of the tools varies with the skill and ability of the unit's advisors and the unit's business strategy. Inexperienced advisors use the tools the most. Experienced advisors, with well honed diagnostic skills, use them less. Units with a strategy to provide consulting services for continuous productivity improvement, rather than for one-off problem-solving, use the tools the most. There appears to be a strong correlation between repeat contracts and the use of the diagnostic tools. They identify many problems that then "require" advisory services to help find solutions to these problems.

3. It is difficult to identify which organization owns the diagnostic tools. The only CAISNET player with no claim to the tools is CRC Sogema/PAR. Each of the other organizations involved in the network, CODETI, the Industrial Chambers and Associations, the Units, FECAICA, IDRC, CIDA and CONICIT, appears to have a legitimate claim to "ownership" based on the multitude of uncoordinated, signed agreements related to this "project good".

Project Management

1. FECAICA was the appropriate organization to sponsor and endorse the regional network. It was, however, unsuitable as the executing agency for the FECAICA/PAR contract and for the IDRC/FECAICA/CICR grant agreement. The simplest explanation for this is the fact that it had no managerial and institutional delivery capacity.

2. CAISNET has no project manager. There is a Canadian CAISNET coordinator, a Canadian Liaison Officer, a Regional Network Manager, a Coordinating Unit Director, five Unit Directors, a PAR Program Manager, and an IDRC Project Manager. CAISNET, however, which includes all of these players, has no manager who is ultimately responsible and accountable for ensuring that the results have been achieved on time and in budget.

3. The CAISNET steering committee was poorly structured. It did not serve the needs of the CAISNET participants nor the donors. FECAICA, which represented its members on this committee, did an inadequate job of communicating the results and decisions of this committee to its members.

4. The Unit's Technical Committee, (or Advisory Committee), when it meets regularly appears to significantly improve the performance of the unit. Also the unit's connection to the network is strengthened because of the frequent interaction with the coordinating unit director. Although meetings of these committees were required under IDRC agreements, they were held in only one of the five units on a continuing basis.

5. The decision by FECAICA in May 1998, in which the Chamber of Costa Rica was delegated the coordination and executing role of FECAICA, did not significantly improve the problem of the lack of a project manager. If anything, it slowed the administrative and approval process. It may also have been inappropriate for the Chamber of Costa Rica (or for that matter any FECAICA member), to accept this delegated authority. National chambers have national action mandates from their paying membership. They can participate in regional projects but do not usually manage them. In addition, FECAICA may have illegally delegated its contractual fiduciary authority according to section 103 of the contract.

6. The Chamber of Costa Rica, delegated the authority it received from FECAICA to the Director of UATI. When interviewed in July, however, this director did not appear to have an extensive knowledge of the major governing documents of the CAISNET project such as the seven project plans and budgets, or its twelve major contracts and sub-contracts. In addition, the UATI director is in a conflict-of-interest situation since he is in a position to make decisions about the budget from which he is a recipient.

Project Contracts

1. CAISNET is supported by seven different contracts with funding from two Canadian donors. This contract framework is inappropriate and unmanageable and has resulted in inefficient allocation of the total Canadian financial support provided to CAISNET.

2. The PAR contract, while providing resources to strengthen CAISNET, changed the network's character. Formerly, under the IDRC structure, the network was a loosely affiliated federation with each unit having a high degree of autonomy. From March 1996, the network became more centralized in response to the reporting and payment conditions of the PAR contract. This contract required a unified network profile of plans, activities, results and expenses.

3. The IDRC agreements demanded little from the recipients in terms of compliance. The focus of the reporting was national

units, not the network. Budget lines were deliberately simple. Advances were generous. No proof of payment was required in reporting. Timeliness of reports mattered only in terms of future payments.

4. From the start of the FECAICA/PAR contract, the reimbursement system has been slower than the 45 days agreed to in the contract. The evaluator found $189,000 in outstanding bills, most between 60 to 120 days overdue.

Project Budgets

1. The FECAICA/PAR budget was unbelievably complicated, even for an experienced project evaluator. There were thirteen itemized activities with no cost items such as salaries or travel identified. The FECAICA members interviewed who had signed the contract indicated they had signed without fully understanding its budget details. An activity budget was a PAR Program requirement.

2. CAISNET did not have a total project budget. Among the seven different contracts it was impossible to determine who was paying for what salary, the name of the person who received this payment, and what the salary level was. In both the IDRC agreements and the FECAICA/PAR contract all salary support costs were lumped together under "Personnel". No person could tell the evaluator how many persons were paid for by CAISNET in its totality. Even CODETI, with its good records, required further research to answer this question.

3. There was little coordination among the titles of the budget lines between the IDRC agreements and the FECAICA/PAR contract. Consequently, the relatively straightforward expense items for the units were complicated unnecessarily by categories related to donor project budgets.

Sustainability

1. No unit came close to achieving self-sufficiency during this period. In the IDRC plans, two of the five units, Costa Rica and Guatemala, were estimated to reach self sufficiency by December 1998. This did not happen. The estimated self-sufficiency of these two units was 28% and 13% respectively at the end of March 1998.

2. The estimated self-sufficiency achievement of the units was between 2% and 50% of total costs. Figures on earnings ratios to total costs were unavailable, or, if available, inadequate.

3. Although the units are beginning to look as if they will be able to sustain themselves, they have not been managed in a

focused effort to reach this goal.

4. The national sponsoring organizations all contribute towards the operation of the units, some covering staff and office operating costs, others only operating costs. At present 38% of the staff positions are supported by the national chambers, (11/29), with the other positions supported by three main donors. All of the units cover most of their operating costs from earnings or from national chamber funding.

5. The financial statements upon which sustainability estimates are based are not reliable. They are presented as (a) expenditures to project budgets, rather than as revenue and expense statements, or (b) if reported as revenues and expenses, they have not been reported reconciled to bank accounts.

MAJOR RECOMMENDATIONS

This section covers the 17 major recommendations of the evaluation.

1. Discussion of the Evaluation Reports: There is a lack of information (and much misinformation), about this project among CAISNET participants. IDRC and CIDA, the Steering Committee and FECAICA members, are to ensure that all of the CAISNET staff, (including secretaries), receive their own copies of these two reports so that everyone involved, from the bottom to the top, can decide in a participatory manner on the future of this project.

The bridging period has been designed to enable this process of participatory consultation and discussion to be carried out while services to SMIs continue.

The method of arriving at these decisions as well as the decisions taken will be a demonstration of how the regional network of CAISNET functions.

2. Continued Support: The success of the network, or rather of the three units of this network, Costa Rica, El Salvador and Guatemala, in targeting SMIs, is the basis for a recommendation to CIDA and IDRC to continue funding CAISNET. Before a second phase is funded, however, a bridging period is necessary to allow for a smooth transition to the new phase.

3. Bridging Support: A bridging phase of thirteen months should be financed jointly by CIDA and IDRC based initially on the status quo staffing as of September 30, 1998.

The estimated cost of this is $520,000 [see bridging report.]

An option for the Bridging Phase is to extend the FECAICA/PAR contract. This is not recommended for two reasons: first, CRC Sogema/PAR's repayment structure has created difficulties in the project management and is a source of continual frustration among the units, the coordinating unit, and The Alliance. Second, PAR itself is a project, and will terminate shortly.

4. Priorities During the Bridging Phase: The national units are to improve their operational performance and their self-sufficiency. The coordinating unit is to terminate the existing contracts and provide technical assistance to the units to improve their operations. FECAICA and its members are to determine their long-range plan for the network.

No regional or Canadian linkage activities should be supported during this period. This will enable network sponsors to concentrate on decision-making and implementing recommendations made in the evaluation.

5. Conditional Future Support: CIDA and IDRC should continue to support CAISNET in the short and medium term **provided** the network sponsors develop a document describing the network and its "value added" characteristics. Also required is a plan with cash flow projections and funding sources identified for the networks' eventual operation without Canadian donor assistance for its core costs, (salaries, office operations costs, and network coordination costs). The plan should include recommendations for the project steering committee (or Board of Directors), and also include a job description of the key manager, if any.

Since FECAICA and is members are the sponsors of this network, the evaluator is leaving the decision to them to decide what they want. The evaluation report does, however, contain several options to guide their decision-making process. FECAICA should consider developing its plan to one year beyond 2002 if they plan for a continuing network. The Network Plan is to be presented to CIDA and IDRC by March 31, 1999.

The services of the coordinating unit are available to FECAICA during the bridging phase for this plan development.

6. Next Phase: If a satisfactory network plan has not been presented to CIDA and IDRC by March 31, 1999; then, when the bridging phase ends on September 30, 1999, Canadian funding should be only for the national units until they reach sustainability.

7. Pilot Project: The pilot project nature of CAISNET should be declared over and a conscious decision taken about its future.

8. Canadian Aspect of CAISNET: The long-term, general connection of CAISNET to Canada, should be ended.

The CAISNET project description states that its unique feature is the fact that it is a regional network connected to a Canadian one. CAISNET should, however, be described as a regional network only which could, for a certain time period, and for defined results, have one or many Canadian connection(s).

9. Project Name: The name of the project should be only "CAISNET". All other names should be dropped as confusing and misleading.

If the project structure for the new phase is the same five national units with or without a coordinating unit, however, the project name should be changed to FECAICANET as a more accurate description of its functioning.

10. Ownership of CAISNET: The ownership of the CAISNET project, as per its legal persona, should be confirmed as follows:

10.1 **Donor's Role**: The creation of CAISNET has been assisted by IDRC funding and strengthened by CIDA funding through the PAR project; but CIDA/PAR and IDRC in no way "own" the project, nor do they have any partnership in the project beyond the date and funding obligations listed in their agreements. In no way it is appropriate to "transfer the project" to the institutional beneficiaries. From the donor's perspective, the project is already theirs. What is needed is for the owners to accept full responsibility for what is already theirs.

10.2 **Industrial Support Units**: Each of these national units is "owned" and operated by their respective sponsoring chamber or association. They are incorrectly called "national units" implying a separate legal entity. These units are in fact, departments or divisions of their sponsoring organizations.

These units are, therefore, to be fully integrated into the Chamber or Association with regards to its personnel policy, organizational structure, annual work planning and accountability structure.

If any FECAICA members do not wish to continue to own an industrial support unit, they should make this decision as soon as possible so that a new sponsoring organization can be located over the bridging period. Or, alternatively, the unit can be legally registered as an organization, its constitution drawn up and approved, and its membership and Board of Directors established so that it can participate in the network on the strength of its own institutional performance.

10.3 Coordinating Unit: Under the provisions of the FECAICA/CICR and FECAICA/PAR agreements, the coordinating unit is the responsibility of FECAICA. Hence, FECAICA is to be considered its legal owner. FECAICA as a federation of members, is providing the services of the coordinating unit to its members to assist them to set up and operate successful consulting services to SMIs, and to coordinate regional activities and links with Canada.

Since FECAICA does not have project implementation capacity, contracting the coordinating unit services to an individual, a private firm or to a foundation is a reasonable alternative.

If FECAICA does not wish to assume ownership and responsibility for this unit, including its eventual long term funding, this decision should be made as soon as possible so that alternative long term arrangements can be made.

10.4 <u>CODETI</u>: CODETI is a Costa Rican foundation providing coordinating unit services to FECAICA for the management of CAISNET. Because of the circumstances of this contract, CODETI has legal representation for CAISNET under the FECAICA/PAR contract terms and conditions. Legal representation is not, however, legal ownership of the CAISNET project. References to the project as "the CODETI/CAISNET project" should, therefore, be dropped.

11. <u>Making of Decisions Concerning the Purpose of the Regional Network</u>:

FECAICA and its members are to discuss and decide on the "network" aspects of CAISNET; that is, the purpose and structure of the network and the types of activities the network wishes to carry out. These discussions should be both visionary and concrete and could include consultations with other national and regional organizations which provide services to SMIs. Several options to be considered are discussed in the section of the report titled "value added of the network" (page 55.)

12. <u>The name of the Steering Committee Should be Changed to the Project Steering Committee for the Duration of the Donor's Participation in it.</u>

13. <u>The Steering Committee Should be Restructured with Regards to Membership, Decision Making, Roles and Responsibilities</u>

<u>Membership</u>: should include permanent and non-permanent members.

The permanent members should be:

- a representative from the national Chambers and Associations of Industry
- a representative from each of the funding agencies
- others as appropriate

The non-permanent member should be:

- a representative of the Canadian organization which is working with the network for the period of their association with the network

<u>Other Steering Committee Sub-Committees</u>: There should be no sub-committees of the PSC. The existing executive committee, project approval committee and technical sub-committee under the FECAICA/PAR structure should be abolished.

Decision-Making: Wherever possible, decisions should be made by consensus. In the case of a vote, however, the permanent members should be the only voting members.

Secretariat Functions: The PSC is to designate a person to carry out the secretariat functions. This person could be the Project Director, the Network Manager, or Coordinating Unit Director. This person is usually, but not always, a non-voting member.

Roles and Responsibilities: The purpose of the PSC is to facilitate the implementation of the donor-funded project. The PSC could become, (or already is), the nucleus of the Board of Directors of the network emerging from the project which continues network operations after donor funding ends.

The role of the project steering committee is to:

1. decide on the overall project strategy and orientation
2. review the annual workplan of the project, and, depending on the contracting of the project, approve this plan
3. monitor progress to expected results at the national level and at the regional level
4. review the financial position of the project and, depending on the contracting of the project, approve the budget
5. develop and approve on behalf of the network, project proposals for modernization of SMIs for submission to other interested donors
6. recommend corrective action to steering committee members to ensure that the minimal standards of the network are maintained
7. facilitate donor coordination if more than one donor is involved

Limitations of the Committee: The review of the workplan and the financial position does not replace or supersede the responsibility of any contracting organization with its donor to manage and report on their financial obligations and commitments to achieve agreed-on results. The final responsibility to approve plans and budgets and subsequent changes rests with the donor and the contracting organization, and not with the project steering committee. The committee's role is to recommend changes.

Transition: The transition from the existing steering committee to the new steering committee will occur during the bridging phase. The existing committee will terminate with the approval of the final progress and financial reports from FECAICA to PAR.

Duration: The new PSC will function for the duration of the funding agreements with the donors.

After Donor Funding: Whether or not the steering committee continues functioning to supervise and monitor activities of the network depends on decisions concerning the long-term network structure and its program.

Post-donor funding activities would likely be to coordinate activities of the network, to review performance and funding issues related to the coordinating unit, to review performance of the network manager (if any), and to develop additional regional projects for the network to implement in partnership with other international donors or Central American governments.

14. CAISNET Project Manager: The bridging project manager is to become the CAISNET project manager for the bridging period from October 1, 1998 to September 30, 1999. The bridging project manager, hired and supervised by IDRC, will manage the bridging period contracts and will supervise the contracts and performance to results of:

1. The Chamber of Industries of Costa Rica for the perforamcne of UATI
2. The Industrial Association of El Salvador for the performance of UNATI
3. The Chamber of Industries of Guatemala for the performance of UTEPYMI
4. The National Association of Industries of Honduras for the performance of UNATIH
5. The Chamber of Industries of Nicaragua for the performance of UNAPI
6. CODETI for the performance of coordinating unit services. The President of CODETI is to be designated the director of the coordinating unit.

15. Management Transition: The President of CODETI is to conclude his services as the Network Manager under the FECAICA/PAR contracts when the activities of this contract terminate. He will subsequently be designated as the director of the coordinating unit, reporting to the bridging project manager, (the CAISNET manager), under the bridging contract with IDRC.

The APRO representative, as the CAISNET Canadian Coordinator under the IDRC-FECAICA/CICR agreements, is to tender his resignation effective September 14/98 when the IDRC/FECAICA/CICR and IDRC/Alliance agreements terminate.

The administrative supervision of CICR under the IDRC arrangement should also terminate effective September 14, 1998 [note - CICR has no similar administrative supervisory provision under the FECAICA/PAR contract.]

16. New Phase - The Coordinating Unit (option): The coordinating unit is to provide services to the national units to assist them in developing their consulting practise in a more efficient and effective manner. In addition, when project activities and funding are available for network activities, the coordinating unit can manage these on behalf of the network under a pre-approved plan and budget. The tasks of the coordinating unit are to:

1. provide technical assistance to the unit directors for the management of their units
2. provide advice to the Chamber or Association Executive Directors on the integration of the unit into the Chamber and Association structure and management
3. organize regional technical training
4. facilitate the sharing of information among the units
5. maintain a data base in support of the unit's activities
6. maintain the network's data base on performance, staffing, and financial self-sufficiency for reporting to donors and monitoring purposes
7. manage the network travel budget (between countries and from the region to Canada)
8. provide secretariat services to the project steering committee and participate in these meetings as a non-voting member
9. assist the Canadian business linkage partner to coordinate the visits of Canadians to the region and the travel to Canada of any network members or participating SMIs
10. conduct impact assessments of the national units' services to SMIs
11. manage and administer the coordinating unit's funds and any funds that have been provided for common network activities.
12. write project proposals on behalf of the network under the guidance of the network Board of Directors/PSC.

Staffing (optional): The sponsoring organization should review the required tasks, the available financial means, and forecasted needs. At a minimum, there is likely to be a need for a director, an assistant, and a secretary.

Contracts: The functioning of the unit can be contracted to a foundation as has been the case with CODETI, or to an individual or to a private sector firm. The contract should specify the work they are expected to do and include a budget for their services.

If the intention of FECAICA is not to have a sustainable coordinating unit, options for contracting the services of a coordinating unit have been provided under the "Value Added" Network section of this report (page 55).

17. <u>Ownership of the Diagnostic Tools Needs to be Clarified by Outside Legal Services as Soon as Possible</u>: Seven organizations appear to have reasonable grounds to claim ownership of these tools, including IDRC and CIDA. These donors should jointly hire an outside lawyer as mediator. Ideally, this person will be fully bilingual, (Spanish-English), a specialist in intellectual property law in Canada, and have knowledge of and experience with the intellectual property laws of Costa Rica and the other Central American countries. This mediator will review the legal depositions of each of the seven groups attesting to their claim. The results of this mediation should be binding on all parties concerned.

18. <u>The National Units are to Improve their Operations in Six Areas: annual planning, personnel policies and compensation, financial management, operational procedures/client services, and facilities and equipment over the bridging period.</u>

The recommendations for these improvements are included in this report. The bridging project manager will conduct a rapid institutional assessment of each unit in June 1999 and report the findings to the Chambers and the Unit Director at the end of the appraisal. He should also issue a report to the Chamber, the Unit, IDRC and CIDA.

The purpose of this appraisal is to ensure that the agreed to recommendations have been implemented. The Assessment Grids for the Appraisal are included on page 30 of the Bridging Report.

19. <u>IDRC is to Take the Necessary Investigative and Administrative Actions to Close UDATE, the Last Non-FECAICA Unit Still in the Network</u>.

ABBREVIATIONS

ANDI	Industrial Association of Honduras
APRO	Association of Provincial Research Organizations of Canada
ASI	Salvadorian Industrial Association
CADIN	Chamber of Industries of Nicaragua
CAISNET	Central America Industrial Support Network
CICR	Chamber of Industries of Costa Rica
CIDA	Canadian International Development Agency
CIG	Chamber of Industries Guatemala
CODETI	Company for Technological and Industrial Development of Central America
COHCIT	National Council for Science and Technology - Honduras
CONICIT	National Council for Science and Technology- Costa Rica
CU	Coordinating Unit CAISNET
FECAICA	Federation of Industrial Chambers and Associations of Central America
FEPYME	Federation of Small and Medium-Size Enterprises of Guatemala
IDB	Interamerican Development Bank
IDRC	International Development Research Centre
LARO	Latin America Regional Office (IDRC)
NISU	National Industrial Support Units
PAR	Regional Support Program
PSC	Project Steering Committee
SMEs	Small and Medium Enterprises
SMMs	Small and Medium Manufacturing Firms
SUDIAC	Unified Industrial Diagnosis System For the Improvement of Competitiveness
UATI	Industrial Support Unit of Costa Rica
UDATE	National Unit for Technical Assistance to Small and Medium Enterprises (Honduras)
UNAPI	National Unit for the Support of Small Industries of Nicaragua
UNATI	National Industrial Support Unit of El Salvador
UNATIH	National Industrial Support Unit of Honduras
UTEPYMI	Technological Unit for the Development of the Small and Medium Sized Industries of Guatemala

ALL FINANCIAL DATA IS IN CANADIAN DOLLARS

PARTICIPATING ORGANIZATIONS
(listed alphabetically)

The Alliance of Manufacturers and Exporters of Canada: "The Alliance" was established in May 1996 by the merger of the Canadian Manufacturers Association (CMA), founded in 1871, and the Association of Canadian Exporters, founded in 1946. The Alliance is governed partially under the Special Act that created the CMA and partially by the Canadian Corporation Act. Headquartered in Toronto with offices in ten provinces, it represents more than 3,500 manufactures and exporters. In June 1996, the Association of Provincial Research Organizations of Canada, (APRO), joined the Alliance.

The Association of Provincial Research Organizations: (APRO) Founded in 1969, and independently incorporated in 1984, APRO's members are the seven most important technological centres in Canada. They are located in Alberta, Manitoba, Nova Scotia, Ontario, Quebec, Saskatchewan and the Northwest Territories. At the height of its activities APRO represented more than 5,000 research and development professionals, business advisors, and technology and information specialists. The association merged with The Alliance on June 19, 1996. APRO ceased to exist as an organization; its former members, however, meet as the Science and Technology Committee of The Alliance.

CIDA: The Canadian International Development Agency is the lead government agency responsible for Canada's development assistance. Established in May 1958, CIDA's purpose is to support sustainable development in developing countries in order to reduce poverty and to contribute to a more secure, equitable and prosperous world. CIDA supports six strategic programs areas: basic human needs, women and development and gender equity, infrastructure services, human rights, democracy and good governance, private sector development and the environment. CIDA had a staff of 1,200 and a budget of $1.8 billion in 1996/97.

CODETI: Registered in 1991, CODETI (Company for Central America Industrial and Technology Development), is a legally registered foundation located in Costa Rica. CODETI worked with CONICIT from 1991 to 1994 to undertake specific cases of technology transfer among companies and technology centres in the region. The results of these studies strongly supported the creation of national industrial advisory services, joined and supported through a Central American regional network. CODETI and IDRC held discussions with FECAICA in 1994 to explore their interest in this network. In 1995, under the IDRC grant to FECAICA and the Chamber of Costa Rica, CODETI's President was named as the director of the coordinating unit. In 1996, under the FECAICA-PAR contract, the President of CODETI was named the Network Manager in addition to his role as Coordinating Unit Director. CODETI staff provided the services of the coordinating unit.

FECAICA: The Federation of Chambers and Industrial Associations of Central America comprises the five Central America Organizations that represent the industrial sector of the region. Its members are the Chamber of Industries of Costa Rica, Industrial Association of El Salvador, Chamber of Industries of Guatemala, Industrial Association of Honduras, and the Chamber of Industries of Nicaragua. FECAICA is run by a Board of Directors, comprising the presidents of the five member groups. The presidency rotates among the five counties at regular intervals. Meetings are held bi-monthly at which members' representatives regularly "network" and decide on regional issues. FECAICA maintains a office in Guatemala City to execute and follow up directions from the Board of Directors and the President. It is registered as a non-profit organization in Guatemala.

International Development Research Centre (IDRC) Founded in 1970 by the Parliament of Canada, and governed by an international board of 20 Directors, IDRC provided the first seed capital to CAISNET. IDRC's core mission is to initiate, encourage, support and conduct research into the problems of the developing countries. It is funded by a grant from the Canadian government which in 1997/98 totalled $88.1 Million, of which 24% is dedicated to its African program, 21% to Latin America and 18% to Asia. IDRC also co-funds projects with other donors and the private sector and implements projects directly related to its mandate. Most of IDRC's 380 staff are located in its headquarters in Ottawa. It has seven regional offices with the Latin America Regional Office (LARO) in Montevideo, Uruguay. Both the LARO and headquarter offices have been involved in the development and funding of the CAISNET project.

PROJECT ORGANIZATIONS

CAISNET: The Central American Industrial Support Network Project consists of five National Industrial Support Units (NISUs) throughout Central America and a coordinating unit. CAISNET provides a regional approach to support for small and medium-size industries or manufacturers, (SMIs), through its national advisory services and its information sharing network. CAISNET members also coordinate their efforts on issues of common interest and promote business linkages among SMIs in the region. CAISNET collaborates with The Alliance to facilitate business linkages between the region and Canada.

Three years were required to establish the network as the first national unit was funded in February 1994, the coordinating unit in May 1995 and the last unit in February 1997. From March 26, 1996, CAISNET received funding support to strengthen its network from PAR. FECAICA is the network sponsor. CAISNET is a project. It is not a legally registered institution. The legal representation, however, on behalf of CAISNET, under the FECAICA/PAR contract, is held by CODETI.

NISUs: The National Industrial Support Units, the sites of the CAISNET network, operate in the five Central America countries. They are:

∇ ***The Industrial Support Unit of Costa Rica (UATI)*** established in July 1994 and located in the Chamber of Industries of Costa Rica, in San Jose. The second phase of the Unit started in January 1997. The UATI receives funds from IDRC and FECAICA/PAR. The Chamber is responsible and accountable for the Unit.

∇ ***The Technical Unit for the Development for the Small and Medium-Size Industries of Guatemala (UTEPYMI)*** established in June 1994 was the first national unit set up. It was sponsored initially by the Federation for Small and Medium-Size Enterprises (FEPYME) and in the first two years was located in different offices before moving to its present location in the Chamber of Industries of Guatemala, in Guatemala City. In January 1997, when IDRC renewed its second phase support to the Unit, its agreement was signed with CIG. UTEPYMI also receives funds from FECAICA/PAR. The Chamber is responsible and accountable for the Unit.

∇ ***The National Industrial Support Unit of El Salvador (UNATI)*** established in September, 1996 and located in the Salvadorean Industrial Association (ASI) in Salvador City. This Unit receives direct funding from the Inter-American Development Bank (IDB) - National Productive Enterprises Association (ANEP) besides the funds from IDRC and

FECAICA/PAR. The UNATI operates under an administrative agreement between ANEP-ASI-CODETI; however, ASI is responsible and accountable for the Unit.

∇ ***The National Unit for the Support of Small Industries of Nicaragua (UNAPI)*** was established in April 1997 with funds from IDRC and FECAICA/PAR and is located in the Chamber of Industries in Managua. CADIN is responsible and accountable for the Unit.

∇ **The National Industrial Support Unit of Honduras**' funding was approved in May 1994 by IDRC for a grant to the Honduran Council of Science and Technology (COHCIT), a government agency. However, the memorandum of understanding between IDRC and COHCIT was not signed until May 1996. The unit, under the name of UDATE and located in the Technology University of Honduras, started its operations shortly thereafter. IDRC grant agreement with COHCIT expired in May 1998 and was not renewed due to poor performance.

The National Industrial Support Unit of Honduras (UNATIH), established with PAR funding in November 1997, is located in Tegucigalpa. UNATIH has no IDRC funding. It has an agreement of cooperation signed with UDATE and CODETI; however, no collaboration has resulted from this agreement. ANDI is responsible and accountable for UNATIH.

CAISNET Coordination Unit: was set up in April 1995 with IDRC funding to FECAICA. Collaborative agreements were signed between FECAICA and the Chamber of Costa Rica for administrative and supervisory services and between FECAICA and CODETI for the management of the unit and the provision of coordinating unit services. This unit was initially located in the Chamber of Industry of Costa Rica but moved its offices to a separate location in 1995. This unit works to increase the effectiveness of the advisory services provided by the national units and to facilitate regional linkages and linkages with Canada. Under the FECAICA/PAR contract CODETI was appointed the Network Manager and the Director of the coordinating unit. The coordinating unit provides administrative and reporting services for FECAICA. The coordinating unit is not a legally registered institution. It is a project site.

CAISNET Steering Committee: The governing body for the CAISNET. project began operations in 1995. It meets bi-annually, usually for two days, to consider policy and strategic decisions and to oversee the operations of the project.

The current members are: the President and Secretary General of FECAICA; the Vice President for International Trade and the Chairman of the Science and Technology Committee of The Alliance (the former CMA and APRO representatives), the Senior Project Officer of IDRC and the Network Director. The project director for CRC Sogema/PAR program also attends as a non-voting member.

The Steering Committee is a project mechanism created to provide overview and supervision to the CAISNET project. It is not a legally constituted accountability structure.

PAR Program: Programa de Apoyo Regional is a five year, $14.0 M CIDA funded project which began in February 1995. PAR's goal is to promote an equitable process of economic modernization in the Central America region. PAR supports two major activities: a $10 M Regional Initiative Fund and a $750,000 Study Fund, which finance proposals from Canadian and Central American partners to facilitate the transfer of management techniques and technology and to strengthen the mechanisms of regional participation in the modernization process. The program is implemented by CRC Sogema, a Canadian private sector consulting company located in Montreal with a project office in San Jose, Costa Rica. The PAR program is scheduled to end in February 2002. It is not known whether or not PAR will have a second phase. CRC/Sogema holds the legal representation for PAR in Central America.

INTRODUCTION TO THE REPORT

BACKGROUND

The beginning of CAISNET is unclear. The original project managers have left IDRC. The files for CAISNET's start up are in IDRC's Montevideo office and the IDRC department that sponsored this initiative no longer exists. Only one person from this period remains - Jorge Monge, the President of CODETI. His history of the creation of CAISNET is found in the annex. The evaluator's understanding is summarized below.

In the early 1990s IDRC began to explore the possibility of transferring innovative, technological advisory services from Asia and Canada to Central America to address the problems of small and medium-size manufacturers: low productivity, outdated technology, inadequate marketing, low product quality, and poor management skills.

As part of these initiatives, IDRC, through its Corporate Initiative Branch (CIB) Ottawa and LARO offices, and the Science and Technology Department of the Organizations of American States (OAS), sponsored a meeting to discuss the applied technology development of the region. Subsequently, researchers from Costa Rica and Brazil joined efforts to submit a proposal to IDRC for the establishment of a pilot initiative for Central America to promote north-south and south-south transfer of technological knowledge. In December 1991 IDRC funded this proposal. It was sponsored by CONICIT, the National Council for Science and Technology of Costa Rica, which selected Jorge Monge as researcher for the project.

In 1994, based on the promising results of CONICIT's work, IDRC funded two industrial support units as pilot projects: one in Costa Rica with the Chamber of Industry and the other in Guatemala with the Federation of Small and Medium Enterprises. Concurrently, IDRC approached FECAICA to discuss establishing similar units on a regional basis, with the idea of a "network" among them to provide for a regional approach to industrial support. During this period, the idea of a regional network was strongly supported by the President of the Costa Rican Chamber, who was also the President of FECAICA.

In November 1994 FECAICA's Board approved the CAISNET project idea which was presented to IDRC for funding. The original proposal was a three year, $1.5 M project. When IDRC received budget cutbacks from the Canadian Government, the proposal was reduced to $394,000 over 31 months. Scaled back were elements relating to technology transfer, joint ventures, Canadian support and monitoring to preserve the essential elements: establishing the co-ordinating unit as the network hub, supporting the national units in start-up, and testing and adaptation of the diagnostic tools.

From 1994 to 1997 IDRC funded three additional units in Honduras (UDATE), in El Salvador (UNATI), and in Nicaragua (UNAPI), with the timing for the establishment of these units based largely on IDRC's availability of funds. From the beginning, IDRC had received favourable response to possible additional funds from IDB and CIDA through its PAR program. In March 1996, after a successful project submission to a competitive bid, PAR signed a $1.1 M contract with FECAICA for 30 months.

EVALUATION CLIENTS

The primary clients of the evaluation are the funders of CAISNET: IDRC, CIDA/PAR, FECAICA and its members; its implementors: FECAICA, its members, The ALLIANCE, and CODETI; and its supporters: the Governments of the Central American countries.

The beneficiaries of CAISNET are the small and medium-sized industries or manufacturers (SMIs.)

EVALUATION PURPOSE

The purpose of the evaluation is to provide an independent assessment of the performance of CAISNET, that is, its effectiveness and efficiency in serving SMIs, its effect and impact on this target group, and its sustainability. This report also fulfils IDRC's formal requirement for an end-of-funding review.

STRUCTURE OF THE EVALUATION REPORT

The report is divided into four sections: Part I - The Effectiveness of CAISNET covers the results and impacts on SMIs; Part II - The Efficiency of CAISNET covers the operations of the national units, the coordinating unit, the regional and Canadian networks, and the steering committee; Part III - The Sustainability of the Network, and Part IV - Lessons Learned.

This report is to be read in conjunction with the other report from this mission, titled "CAISNET Bridging Proposal and New Phase Proposal", September 1998.

EVALUATION SCOPE

CAISNET has benefited from many donors. This evaluation will assess the overall performance of CAISNET and not exclusively any donor's funded portion.

CAISNET's operational performance was evaluated in July, 1997 at the mid-point of the PAR contract. Fifteen recommendations were provided to re-align the project's activities. This evaluation does not cover the adequacy of implementation of these recommendations.

In addition, the focus of the evaluation is on the results and sustainability of the last three years. Previous years' operations have not been covered.

EVALUATION METHODOLOGY

The evaluation was conducted during June and July, 1998. The first month covered the review of IDRC's correspondence and administrative files, plus project reports. Phone and/or personal interviews were held with IDRC, CIDA, EDC, Program Bolivar, The Alliance, CRC Sogema (Montreal) and Interica.

The field mission was conducted from July 4th to 24th, beginning and ending with a visit to the coordinating unit in Costa Rica. All five national units were visited and separate discussions held with Executive Directors of the Chambers, the Unit Directors, and the available technical and support staff. In addition, two to three SMIs were visited per country. In each case the unit's file of the SMI was reviewed, including the contract, invoices, and any reports, training material or information provided to clients. Where time permitted, other unit files were reviewed.

The evaluator also met with IDB representatives in El Salvador and in Costa Rica.

EVALUATION LIMITATIONS

Unfortunately, due to limited field time, CRC/Sogema (Costa Rica) correspondence files were not reviewed. However, each national unit's correspondence files with PAR was read, so, in the opinion of the evaluator, this was a minor limitation.

A major limitation of the assignment was the design of the field work. The evaluator was asked to assess the network's performance and discuss details of a second phase and a bridging phase. The network assessment involved meeting all five units. When this was completed, no time remained to revisit the units to discuss the details of the bridging and the second phase.

BASIC PROJECT DATA

PROJECT SUMMARY DESCRIPTION

Project Name: CAISNET, Central America Industrial Support Network. Also called, CODETI-CAISNET, FECAICA-CAISNET, and CODETI-FECAICA-CAISNET.

Project Description: CAISNET consists of five units in each of Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, and a coordinating unit in Costa Rica. The national units are hosted by the National Chambers and Associations of Industry in each country, which are members of FECAICA. Although the headquarters for FECAICA is in Guatemala City, the network coordinating unit, sponsored by FECAICA, is located in Costa Rica. This regional network is linked to Canada through The Alliance.

Project's Goal and Purpose: The goal of CAISNET is to improve the competitiveness, productivity and technical capacity of small and medium-sized industrial (manufacturing) firms. (SMIs). Its purpose is to provide a regional collaborative approach to supporting SMIs through networking and advisory services.

Project Target Group: SMIs with between 10 to 100 employees.

Project Funding: CAISNET has had three stages of funding: the first was its formation stage from 1991 to 1994, the second, its launch stage from 1994 to 1997, and the third, its strengthening phase from 1996 to 1998.

IDRC funded the formation stage through its Ottawa and LARO offices. For the second phase, five of the six units were set up by IDRC and one by PAR. The strengthening phase was funded by CIDA through PAR.

Besides Canadian supporters, two other donors, IDB and Fedecooperacion (Holland), are involved. As well, and most importantly, funding has come from the National Chambers and Industry Associations.

Project Budgets: CAISNET was funded through eleven different contracts from 1991 to 1998, consequently a total project budget has never been drawn up. Had there been, the estimated total project budget over this period, excluding other donors' funding, would have been $4,605,414 of which $3,150,131 (68%) has been provided by Canadian donors and $1,454,683 (32%) from members of the network spent in local currency.

For Canadian donors, approximately $2,050,131 (65%) has been committed from IDRC and $1,100,000 (35%) from CIDA through PAR. The highest local contributor is estimated to have been ASI at $179,109 and the lowest, FECAICA/CICR for the coordinating unit at $84,300. [Expenditures from these local contribution budgets were not, however, confirmed in this review.]

Project Outputs and Expected Results: Project outputs are the services, goods, and training that the project implementors are expected to complete by project termination. As this evaluation considers CAISNET as a whole, its outputs have been taken from the most common wording in the eleven project documents with the exception of output # 6. This output has been defined as "business technology opportunities (BTOs) established between Canadian and Central American firms or between firms in the region". The evaluator finds this output statement inadequate, since "opportunities" are not established, they are always present. The intent of BTOs is a successful business deal, so output # 6 has been restated below. The project outputs are:

1. national units established
2. industrial advisors trained
3. industrial advisors providing services to SMIs
4. diagnostic tools developed, tested and in use
5. coordinating unit set up and supporting the network
6. business contracts signed between Canadian and Central American firms or between firms in the region for sales, joint ventures, licensing agreements, business purchases, or distributor agreements.
7. funding raised to cover the costs of the network from earnings, FECAICA members, or other donor projects.

None of these outputs, however, have quantifiable measures attached to them in project documents.

The expected result of CAISNET at the purpose level is improved productivity and profitability for SMIs and, at the institutional level, the managerial and financial sustainability of CAISNET.

MAJOR CHANGES FROM ORIGINAL PLAN

To date, six major changes from the original project plan have been made. They include the following:

1. The Canadian Gatekeeper: The word "gatekeeper" means a person who controls access to and makes available, resources and information. It is frequently used in conjunction with the functioning of the global Internet.

The Gatekeeper was an advisor to the Coordinating Unit Director, based in Canada. He was responsible for the coordination and development of the Canadian linkages. The Canadian Gatekeeper played an active role in CAISNET from project conception to June 1996 when APRO merged with The Alliance. Shortly thereafter, the project liaison officer, hired on contract by The Alliance, assumed most of the Gatekeeper's functions.

The change to The Alliance improved project efficiency because The Alliance, unlike APRO, is a functioning Canadian network with offices throughout Canada. The liaison officer, therefore, did not have to "develop" the Canadian network as had the APRO gatekeeper.

2. Steering Committee: The membership and functions of this committee changed under the FECAICA/PAR contract. Initially the national units were committee members, however, from April, 1998 onward, they were represented by FECAICA's Secretary General and President. As well, the committee's mandate appeared to change from a traditional project steering committee to a Board of Directors of the parallel Canadian and Central America networks. This change negatively affected project decision-making because national units were not directly consulted for major decisions.

3. Project Manager: Initially, CAISNET did not have a network manager. Each unit was responsible and accountable for its own activities and the coordinating unit was responsible for the network activities between the region and Canada.

Under the terms of the FECAICA/PAR contract, FECAICA appointed the President of CODETI as the Network Manager in addition to his IDRC role as Coordinating Unit Director. The FECAICA/PAR contract assumed the five units acted in a coordinated manner with standardized operations, whereas, under IDRC contracts they had been highly autonomous, though loosely affiliated in a network facilitated by FECAICA. The FECAICA/PAR contract structure centralized information, resources (staff and money), and decision-making in the coordinating unit for invoicing, reporting and managing the exceedingly complicated project budget. Consequently, the role of the Network Manager became more prominent over the last thirty months of CAISNET operations.

It does not appear as if a centralized network structure had been agreed to by FECAICA's members even though they signed a contract with PAR representing their network in this manner. Consequently, there was friction between the sponsoring organizations which saw themselves as the unit managers, and the Network Manager, who attempted to "manage" the units under the terms of his agreement with FECAICA, which had been agreed to by all FECAICA members.

This confusion over management responsibilities created unnecessary conflicts.

4. Project Funding: Under the IDRC agreements, the Central American organizations received advances over the duration of their agreements and reported on expenditures twice a year. In contrast, the FECAICA/PAR funding was a refund program, whereby approved activities were paid for in advance by the participants,

and the supporting invoice and documentation submitted through the coordinating unit to PAR for reimbursement. The CRC Sogema/PAR policy, as stated in the contract, was to pay all invoices within 45 days.

However, **THE** major problem of the PAR contract was its late payment of invoices. During the mission, the PAR Director indicated that the delayed payments had been improved. However, the evaluator found outstanding bills totalling $189,000, with most between 60 to over 120 days in arrears. This created considerable hardships to the Chambers, which, in addition to funding their local contribution, had to use their cash flow to finance the poor administrative performance of CRC Sogema. This slowed implementation, and in one case, prevented unit advisors from participating in network training activities.

5. Donor Coordination: Although CIDA and IDRC have been funding CAISNET separately since March 1996, collaboration between them only began in earnest in early 1998. IDRC project files show that coordination with CIDA had been anticipated as early as 1994. Had this occurred, the contracting and reporting structures could have been harmonized and simplified, thereby saving time and energy.

6. Relationships among CAISNET Participants: Until April 1998, CAISNET appeared to be "on target". While there were differences among participants, these were overcome to facilitate the higher objective of regional collaboration.

In May 1998, following the announcement of a joint IDRC and CIDA evaluation, and of a possible future phase with additional funding from Canada, there began a series of letters and meetings demanding changes in PAR activities and the coordinating unit. The evaluator did not speak with all of the key players in this highly heated debate, as several were away on vacation. However, from the evaluator's experience, the discussions appeared typical of the jockeying for control of the next phase (and budget), that is common when projects undergo evaluation for possible next-phase support.

The evaluator found that these actions slowed project progress. They also, in the opinion of the evaluator, undermined the credibility of network members, which could in the long term jeopardize future funding.

PROJECT RATIONALE

TARGET GROUP:

The CAISNET project targets registered small and medium manufacturers with between 10 and 100 employees. According to the original CAISNET proposal to PAR, in the early 1990s there were approximately 11,000 registered manufacturing firms in the five countries of which approximately 80% or 8,800 were small and medium firms. There was no further data verifying the size of the target population by country.

In 1996, FEDEPRICAP, with funding from PAR, carried out a five county study investigating the medium-size manufacturing firms in the region. According to this study, a medium-size firm has between 20 to 150 employees. Using this data, adjusted to the CAISNET target group definition, the target population of CAISNET would be between 11,000 and 16,000 firms: approximately 3,000 firms of between 20 to 100 employees, and a further 9,000 to 13,000 firms of between 10 to 19 employees.

NUMBER OF MANUFACTURING FIRMS BY EMPLOYEE SIZE

# Employees	Costa Rica	El Salvador	Guat.	Nic.	TOTAL	%
5-19	3,794	9,835	1,506	355	15,490	86%
20-49	455	273	467	105	1,300	7%
50-99	173	132	244	45	594	3%
100+	288	194	262	50	794	4%
TOTAL	4,710	10,433	2,479	555	18,177	100%

Notes: The data for Costa Rica is from 1994, El Salvador from 1993, Guatemala from 1993, and Nicaragua from 1995. There was no data available for Honduras. The evaluator has assumed approximately 1,100 Honduran medium-size firms and approximately 2,000 small firms. Though the national data is incomparable, it provides a "best guess" estimate of the target population size for CAISNET.

<u>Target Group Characteristics Relevant to the Project</u>:

The FEDEPRICAP survey indicated two important characteristics of the industrial sector relevant to CAISNET. **The first is that medium firms comprise only 10% of the manufacturing sector. The greatest majority of firms, 86%, are small with under 19 employees. Only 4% of firms have more than 100 employees. This reinforces the importance of small firms in this project.**

The second characteristic indicated by the FEDEPRICAP survey is the underdeveloped manufacturing sector in Nicaragua, which has only 5% and 12% of the number of registered firms as El Salvador and Costa Rica respectively. **This implies that the self-sufficiency strategy for Nicaragua should be to assist all firms, since the unit cannot generate sufficient revenues for its oprations from the less than 400 firms in the SMI target group.**

The Problems of SMIs:

The FEDEPRICAP survey confirmed the situation of SMIs as reported by CAISNET: low productivity, obsolete equipment, inadequate marketing, low product quality, inadequate attention to cash management and capital asset structure, little export experience, and poor management skills. They also stated that much of the industrial base is related to agro-industry.

In conducting interviews, the evaluator found a high incidence of family ownership structure in these firms, which adds familial problems to business ones especially in management issues. Very few of these firms use outside business services of any nature. Even common business services like those provided by accountants and lawyers are typically supplied by sons, cousins, brothers or uncles.

With the opening of the Central American marketplace, and the increasing awareness of globalization, SMIs are aware that they must change. However, they perceive that there are no affordable and reliable services targeted to their needs. Once they are presented with services, especially those supported by respectable national institutions, they are at least willing to consider outside assistance.

The evaluation finds that the target beneficiaries have been well selected with SMIs being an important niche of the industrial sector, and a group of SMEs with specific needs. The problems of the SMIs were clearly well understood by project designers.

RELATIONSHIP TO IDRC'S POLICY AND PROGRAMS

CAISNET was approved by IDRC under its program theme "Technology and the Environment", which included assistance to the SME sector and the introduction of cleaner production processes. In 1997, as part of its corporate revitalization process, this program theme was widened to the Small, Medium and Micro-Enterprise Innovation and Technology (SMMEIT) program, of which CAISNET is an important element. SMMEIT's implementation strategy supports a combination of research, pilot projects and networking.

CAISNET was not a typical IDRC research project. It was more operational than most because of the need to hire and train staff and equip offices. It was approved as a pilot project, with the areas under investigation being the diagnostic tools, the creation and sustainability of the national units, the regional network, and the linkage of this network to its Canadian counterpart.

The evaluation found that CAISNET fit within IDRC's policies and programs and was one of its most innovative initiatives.

RELATIONSHIP TO CIDA'S POLICIES AND PROGRAMS

CIDA has six programming priorities. CAISNET falls within the private sector priorities which promote sustained and equitable economic growth by supporting private sector development in developing countries, and the women in development and gender equity priority which promotes the full participation of women in business and economic development.

CIDA's Central American program has three main themes: social reform/social equity, environment and natural resource management, and economic modernization. CAISNET falls within two of the program themes: social equity and economic modernization which aims to create strategic and institutional alliances between the region and Canada aimed at regional economic integration. CIDA's operational strategy is to "think regionally and act nationally" which permits responsiveness to initiatives at the national level. **Here again, the evaluation confirmed that the CAISNET project meets the policy and program objectives of CIDA.**

RELATIONSHIP TO REGIONAL POLICIES AND PROGRAMS

The Central American governments, individually and collectively, have been developing policies, programs and regulations to expand the productive base of their economies and to encourage greater competitiveness. In 1993, a new system of tariffs was introduced, harmonizing nomenclature and rates. Trade agreements have been signed this decade among regional members, with Mexico, and with other Latin American countries.

Presidential meetings have consistently confirmed the importance of the productive sector and backed this up with modernization of its regulatory environment.

The evaluation confirms that the CAISNET project meets priority objectives of the Central American governments.

EFFECTIVENESS

SERVICES TO SMIs:

Based on unit records, 506 SMI clients paid for consulting services from January 1996 to September 1998. This is approximately 3% to 4% of the regional target population. Almost all of these SMIs clients were from the three established units: Costa Rica, El Salvador and Guatemala.

Comparing national results to target population, Costa Rica has achieved a market penetration rate of 11%, Guatemala 8% and El Salvador 2%. Honduras and Nicaragua have spent longer than anticipated in start-up and could benefit from mentoring assistance from the more successful units to accelerate their growth. Notably, Nicaragua has reached 2% of its estimated target population with only ten firms as clients.

SERVICES TO SMIs - UNIT RECORDS

JANUARY 1996 to JUNE 1998

Unit/Time	**Jan-Dec 96**	**Jan-Dec 97**	**Jan-June 98**	**TOTAL**
Costa Rica	102	92	96	290
El Salvador	20	42	22	84*
Guatemala	14	35	61	110
Honduras (UDATE)		3	3	6
Honduras (UNATIH)			6	6
Nicaragua		1	9	10
TOTAL	**136**	**172**	**197**	**506**

* 36% of El Salvador's SMI clients, (approximately 30 firms), have been repeat purchasers of the unit's services.

Performance to Project Plans:

Project plans gave little attention to results. They were not mentioned in the IDRC grant agreements. The IDRC approval documents have a number stated, however, given its obscure wording and placement in the document, no one but an evaluator would recognize it as an important indicator. The FECAICA/PAR contract is the same. Expected results appeared only in the LFA, a document so confusing to persons not experienced with project management that it could mistakenly be dismissed as unimportant.

Depending on the CAISNET plan used, the number of SMIs served was more or less than the number initially planned. IDRC estimated that 476 clients would be reached during the 36 months from January 96 to December 98. PAR's estimates for less time (30 months), were 40% higher at 666 clients. Accordingly, from IDRC's perspective, the project exceeded its goal by 6% whereas from the PAR perspective, only 71% of the planned target was met. Since the unit directors were not aware that these targets existed, the differences between the plans hardly mattered. Not surprisingly, there was no reporting to planned results in the six progress reports of this period.

PLANNED SERVICES TO SMIs - IDRC

January 96 to December 98

Unit/Time	**Jan-Dec 96**	**Jan-Dec 97**	**Jan-Dec 98**	**TOTAL**
Costa Rica	30	50	50	130
El Salvador	20	35	26	81
Guatemala	30	50	50	130
Honduras	23	35	12	70
Nicaragua	n/a	30	35	65
TOTAL	**103**	**200**	**173**	**476**

Source: IDRC project approval documents, budget section.

PLANNED SERVICES TO SMIs - FECAICA/PAR

April 1996 to September 1998

Unit/Time	Apr-Dec 96	Jan-Dec 97	Jan-Sept 98	TOTAL
Costa Rica	34	71	45	150
El Salvador	23	49	50	122
Guatemala	34	71	45	150
Honduras	23	49	50	122
Nicaragua	23	49	50	122
TOTAL	**137**	**289**	**240**	**666**

Source: FECAICA/PAR contract, LFA, modified to calendar year.

Management Records:

All unit directors have some system of tracking their unit's progress. This is a record of what has been achieved to date, instead of a comparison of results to an approved plan. Only one unit - UNATI has a plan, by month, showing planned versus actual results. This, however, was not used as a management tool since it was two months out-of-date when presented to the evaluator.

Records of client services are kept in two locations: the unit office and the coordinating unit office. Before the FECAICA/PAR contract, each unit reported in non-standard formats and time periods to IDRC. Because the FECAICA/PAR contract required one network report, the coordinating unit attempted to standardize the data. Overall, timeliness of reporting improved under the PAR period, however, there were still unexplained discrepancies between the unit's reports and those of the coordinating unit office. For example, the following chart from the coordinating unit's records for 1997 shows 127 services versus the 172 services reported by the units.

SERVICES TO SMIs - COORDINATING UNIT RECORDS

JANUARY TO DECEMBER 1997

UNIT	CONSULTING SERVICES		TOTAL CONSULTING SERVICES	INFORMATION SERVICES
	Unit Staff	External Advisors		
Costa Rica	15	16	31	11
El Salvador	57	2	59	2
Guatemala	17	0	17	7
Honduras			0	0
Nicaragua			0	0
TOTAL	89	18	107	20

The major difference between the two reports is the definition of what constitutes "a SMI service" for reporting purposes. Some use the number of contracts signed in a year, some the number of invoices paid, and others the number of invoices issued. In general, these differences are significant only when the number of SMI clients is the only indicator of the project. When the goal is self-sufficiency, the important data is the number of clients served, consulting rates, and earnings revenue.

Records of services to clients are the most basic form of record keeping required in a project like CAISNET. This inconsistent data suggests that the project was involved in too many other activities too soon before the fundamental systems were in place.

Cost Effectiveness of Results Achieved

While 506 paying customers is a valiant achievement, the number of clients is considerably less than a functioning network at this stage of its development, costing close to $4.6 M, should have achieved. (The average cost per client, including local contribution = $9,000.) The reasons for the poor performance are varied: slow start-up, turnover of personnel, poor working environment, unmotivated advisors due to low salaries, network regional activities taking precedence over client services, other chamber duties unrelated to the unit's mission, CAISNET politics, servicing other donor's SMI programs which benefit clients but do not earn consulting revenue, attending training courses, and preparing lengthy reports.

The main reason that results are not higher, however, is that client service targets and expected billings were not emphasized and given management attention by IDRC, the Chamber or Association Executive Director, and CRC Sogema/PAR. Data on clients and revenues earned were almost always deeply buried in reports. Rarely were they given front page prominence.

A note of caution: a simple numbers approach to consulting services is not recommended. Unit directors instinctively know that success is a combination of the number of clients, repeat business, and the value and duration of contracts. What is needed for reporting are simple instruments to measure and track these key variables.

PERFORMANCE OF THE REGIONAL NETWORK AND ITS LINKS TO CANADA

The purpose of creating a regional network with links to Canada was to establish a mechanism whereby the national unit could assist SFIs to access new technologies and technological information. How this network mechanism was to work in day-to-day practise was not well explained in the project documents. The evaluator assumed that "accessing new technologies" from the SFIs perspective meant machines or information that were sold or bought through joint ventures, direct sales or licensing agreements.

There were **NO** reports of any SMI which received new technology from another Central American country or from Canada as a result of their contract with the unit or the regional network. The only business deals associated with CAISNET were service contracts for CAISNET training, technical assistance or studies.

From 1996 to 1998, at least 25 SMIs received visits from 13 APRO/Alliance members who conducted investigative and sectoral studies and from two Canadian consultants who conducted the ISO 9000 and ISO 14000 courses, including in-plant demonstrations. In some sense the SMIs visited acquired "information" through these visits. However, the amount of value added to SMIs was small compared with the cost of the regional network and its links to Canada. Neither did any deals result from the visits to Canada of the 30 Central Americans from FECAICA and the unit staff.

The evaluator's finding is that the "value added" of the network from the SMIs' point of view, is nil or, more likely, negative, since network activities and politics have consumed a large amount of time and energy which could have been productively used in consulting services. The recommendation based on this finding is that the rationale and value added of the regional network and its links to Canada must be re-examined by network members from the point of view of concrete benefits to SMIs.

IMPACT OF SERVICES ON SMI PERFORMANCE

The impact of the services on SMIs cannot be determined with any precision. The general impression is that clients are "satisfied" with the services received and feel they have experienced "positive changes" as a result. The evaluator met with 12 firms or 2% of the number of clients served. On a scale of 1 to 10, the firms rated the services between 6 to 8. Most firms had not hired consultants before and found the experience of "outside eyes" beneficial. They were not, however, able to quantify these benefits.

Impact assessments conducted by the units are essentially informal. For two units, clients complete an evaluation form at the end of their contract. The ones returned show high satisfaction, but few are returned and the questions are vague. Three unit directors randomly call their clients to check on their level of satisfaction. Only one unit provides a "services guaranteed or your money refunded" attribute, which no one has used to date.

The original IDRC project plan included impact studies as "research activities". These were never carried out because their funding was to come from "earnings" which were used for higher priorities such as salaries. The majority of the units' files show typical consulting service behaviour: once an assignment "product" has been delivered and the fees collected the file is closed, with no further follow-up. However, El Salvador and Guatemala have adopted a marketing strategy based on continuous performance improvements resulting in follow-on contracts of between 30 to 40% of their client base.

THE REASONABLENESS OF IMPACT INDICATORS

The project documents indicate that the expected impacts included a "wish list" of changes without any conscious thought as to how these would be measured, who would measure them, at what cost and over what time period. The IDRC list includes improved product quality, lower production costs, improved export opportunities, increased employment, improvement in environmental practises, increased competitiveness, improved profitability, and an increase in the company's share of GDP. The FECAICA/PAR list is basically the same with two additions: improved strategic position and innovation.

The issue of what it is practical for consulting services to monitor as "impact" when clients are paying for services, needs to be carefully studied. It is unlikely that a common measurement for all SMIs can be found, since client services are usually unique. Even if a common indicator could be identified and measured, the problem of attribution remains: how to determine that the technical "advice" provided was the unique or the major contributing factor in the measured changes when the company itself must act on this advice.

A study to assess the impact of consulting services on SMIs in Costa Rica, El Salvador, and Guatemala is recommended during the bridging phase. This should also include an examination of the methodological issues of data collection, time and cost.

HAS THE PROJECT ADDRESSED SMI PROBLEMS?

The proposed solution to address SMI problems is to help them access new technologies and technological information. However, the evaluator was unclear as to what was meant by this solution.

The word "technology" was frequently used throughout project documents and field visit interviews in phrases such as "technology transfer", "available technologies", "technologies specific to needs", "cleaner technology", "modern technologies", "higher level of technical proficiency", "a technological brokerage service", "evaluate, acquire and manage new technologies", "technological sourcing" and "technology for competitiveness".

"Technology" is this sense appeared to be a general term used by international development and government professionals to refer to the broad field of mechanical arts and applied sciences. This term, however, is not commonly used by business people or manufacturers. Their language centres around the three key interrelated business functions: marketing, finance, and production. The production function consists of the persons who are responsible for producing the goods for which the firm exists. Typically, this function employs the greatest number of people and is responsible for administering and effectively using the greatest portion of the firm's controllable assets.

While an industrial support unit to SMIs could provide services to all three business functions, its expertise is generally concentrated in the operations functions of a plant. Here, the issues commonly assessed are the design of the production system, and the planning and controlling of operations, including facility location, plant layout, job design, work measurement and standards, compensation and productivity-based wage plans, aggregate planning and capacity considerations, purchasing and inventory management, material requirements' planning, scheduling and controlling manufacturing operations, quality assurance, cost, investment and maintenance.

The evaluator determined that the use of the word "technology" clouded the simple but important work of the advisors - offering services and information related to production. This primary focus does not exclude other business functions; however, in

terms of staffing, the majority of the technical advisors have background and experience in engineering and commerce, rather than in accountancy and finance.

It is recommended that the unit's consulting services be described as basically what they are: services to the productive functions of an SMI. Therefore, the use of general-category terms like technology should be discontinued.

EFFICIENCY

THE PILOT PROJECT ASPECT OF CAISNET

What was the Pilot Project?

IDRC developed CAISNET as an "experiment" and "a pilot project". The recipients received funds for research activities and IDRC expected the results of these experiments to be reported in the progress reports. There were four elements under experimentation in the IDRC project design:

(1) the diagnostic tools
(2) the creation and sustainability of the national units
(3) the creation and sustainability of the national units and a regional network
(4) the regional network linked to Canada

For a research organization that commonly funds experimental projects, the scope of the pilot project was surprising vague. The criteria for success were descriptive: tools developed and in use, the units and the network set up and functioning and links with Canada established. Indicators measuring the degree of use and the degree of functioning were not provided. There were no time limits for the experiment stated, nor were there any indications that the pilot project would be reviewed for a "go/no go" decision.

The pilot project aspect of CAISNET was poorly understood by CAISNET members. Those interviewed were unaware they were participants in an experiment. Instead, they understood their relationship with IDRC as a long-term development partnership rather than that of holders of a short-term research grant.

The conclusion of the evaluation is that the pilot project was poorly planned. Had the expected results within a defined time period been well understood, the experiment could have been better managed to achieve these results.

Results of the Pilot Project:

From a general perspective, the evaluation findings with respect to the four experimental elements conclude that one has been successful, one has failed, and two are unproven.

The success has been the diagnostic tools, the failure has been the regional links to Canada, and the unproven elements are the sustainability of the national units and the regional network.

Two lessons, however, have been learned from the national unit experiments to date. IDRC used two different models for sponsorship of the units: one where the unit was hosted by only one organization (Chamber of Industry of Costa Rica - UATI), and the other where the unit was hosted by a coalition of groups (CONICIT-UDATE). The group coalition model attempted to create a unit which had the support of national private and public sectors players providing services to SMIs such as banks, government ministries, national science and technology councils, chamber and association organizations and universities. The unit's services were to be a "one window" service for all SMI needs. However, coordination discussions among these groups consumed an inordinate amount of time with the result that little time was spent in actually serving SMI clients. The evaluation concludes that the coalition sponsorship of a unit was "tested" and that it proved unworkable.

The second discovery from the national units' experiment is the value of these services to SMIs. None of the FECAICA members offered specialized consulting services prior to CAISNET. However, all of the Executive Directors of the Chambers and Associations stated that they recognized the importance of the service to their members and to the sector. They stated that even if Canadian investment ended in September they would continue the unit with reduced staff. From this reaction, the evaluation concludes that the value of niche market consulting services to manufacturers has been demonstrated. Only their financial viability remains to be proven.

The evaluation recommends that subsequent support concentrate on reaching financial viability for the units.

SUCCESS OF THE DIAGNOSTIC TOOLS

Five tools were developed by CODETI from 1991 to 1996 and transferred to the units. These tools were Analysis for Change, the Holistic Tool - The PIC, the FinanceMeter, and The Environmental Assessment and Improvement Tool. A fifth tool, QualiMeter, under licence to CODETI, was also transferred to the units. Transfer involved signing transfer agreements with the units, providing manuals and software, and training technical advisors in their use.

The technical advisors use the tools for between 20% to 50% of their clients depending on client demand, technical advisor experience and unit strategy. The biggest users of the tools are inexperienced advisors and the units whose business strategy is consulting for continuous productivity improvements. The tools are least used by inexperienced advisors and units whose consulting revenue comes primarily from one-off problem-solving assignments. The original project idea was that the units would use the tools as their main consulting service; however, the units have found that the needs of the SMIs go beyond the general nature of the tools.

In general, the advisors were satisfied with the transfer of the tools. However, some of the initial software was problematic, several questions in the tools were repetitive, and many were too general. The success of the training was less clear. Some advisors rated the training highly. Others indicated that there was little attention given as to how to write a report with the diagnostic information that would be meaningful to clients or how to interpret the data against industry norms. The evaluator found it surprising that none of the advisors could explain what the benchmarks were that were used in the tools.

Overall, however, transfer of the tools has been successful.

ORGANIZATIONAL STRUCTURE

This section reviews the steering committee, the coordinating unit and the network manager functions.

<u>Summary of Findings</u>: **The organizational structure of CAISNET has been a major inhibiting factor in the network's progress. The problem is its committee membership and management structure.**

THE CAISNET STEERING COMMITTEE STRUCTURE

The current steering committee has seven members: three from Central America and four from Canada. Its members are: from Canada - The Alliance, APRO, Gatekeeper (vacant) and IDRC; and from Central America - FECAICA (two persons), and the CAISNET Manager. Its role and responsibilities at its bi-annual meeting, as defined under the FECAICA/PAR contract, are to:

- define the strategy and policy for the efficient functioning of the project
- approve the workplan and budget that was presented by the network manager
- monitor the progress of the project

The committee has met six times since November, 1995. It reviewed CAISNET progress in general and several specific activities with discrete budgets, but it did not approve any annual workplans or budgets. It spent a large amount of its time coordinating activities between Central America and Canada.

CAISNET was the first donor-funded project of large duration undertaken by FECAICA and its members. They did not appear to have a clear understanding of how a project steering committee functions and is structured. The following information is provided to fill this knowledge gap.

The "Typical" Project Steering Committee (PSC)

A project steering committee is set up by donors for the duration of a project agreement or contract. Usually after project funding ends, so does the committee. The committee's purpose is to define the policy and strategy of the project in general terms, to monitor the progress to expected results, and to solve any implementation "blockages" that may occur.

There are two types of PSCs: those where the membership is the same as the project contractual parties, and those where it is different. Both of these committees perform the same functions as stated above. Their key differences relate to their approval authority.

Where the contractual parties and steering committee members are the same, the committee can be an approving committee for the annual workplans, changes in project activities, project budget and progress reports. The written minutes of the PSC function as documentary evidence of contractual party consent to these changes. However, this is not the case where steering committee members are different from the contractual members. Here, the PSC's role is to advise and recommend to the contractual parties on these issues. The PSC recommendations cannot be binding decisions because the committee cannot supersede the role of the donor and the grant recipient to make decisions about the project.

When donor funded projects are intended to be sustainable, the project steering committee is usually the Board of Directors of the organization plus a donor representative during the period of collaboration.

Project steering committees do not function as project managers. All projects have a manager who handles the day-to-day implementation and administration of the project. The manager is accountable to the organization which signs the contract or agreement with the donor. She/he provides information and reports to the committee, but is not accountable to it.

The Inappropriateness of the Current Steering Committee (SC)

The evaluation found that the current steering committee as constituted by FECAICA has an identify crisis and an authority vacuum. It is unsure which project it is monitoring and what authority its decisions have.

There were five possible structures that could have been proposed for this committee depending on its intended function and its decision-making scope. The existing seven-person committee was inappropriately structured with respect to these five possibilities. It was not appropriate as a project steering committee for the FECAICA/PAR contract nor for the IDRC/FECAICA/CICR agreement. It did not meet the membership requirements for a CAISNET Board of Directors nor for a network operational and coordinating committee. Neither was it structured in the form of the original project steering committee as proposed by IDRC. Consequently, its recommendations and decisions carried no authority for the project participants who were affected by them. The five possible structures for the steering committee were:

The FECAICA/PAR Committee of Three: If the SC were intended to be a project steering committee for the FECAICA/PAR contract (i.e., strengthening the network), its members would have been the signatories of the contract: the President of FECAICA, and the Manager of PAR, plus the Network Manager providing secretariat services to the committee. IDRC, The Alliance and APRO would not have been members on the committee unless invited.

The IDRC/FECAICA/CICR Committee of Four: If the committee were intended to be a project steering committee for the IDRC and FECAICA/CICR agreement establishing the coordinating unit and regional activities, its members would have been the agreement signatories: the President of FECAICA, the Executive Director of the Costa Rican Chamber, a representative of IDRC and the Coordinating Unit Director, with the coordinating unit providing secretariat services to the committee. The Alliance and APRO would not have been members on the committee, unless invited.

The Operations and Coordinating Committee of Fifteen: If the committee were intended to be an operational and coordinating committee for CAISNET, its members would have been the five Executive Directors of the Chambers, the five unit directors, The Alliance and APRO, the network manager, providing secretariat services to the committee, plus the two donors. The current committee lacked the participation of the national units' directors and the Executive Directors of the Chamber and Associations, impeding its ability to be an effective activities' coordinating committee.

The Network Board of Director's Committee of Six or Seven: If the committee were intended to be the Board of Directors of the Network, its members would have been the five Executive Directors of the Chambers (or the five Unit Directors), plus the Network Manager providing secretariat services to the Board. A representative from FECAICA may (or may not) have been on the committee depending on its role in the network. The donors would not have been members of this Board, since presumably the Network and its Board functions independent of donor funding. However, in the case of creating the network, (the IDRC agreements), or strengthening the network, (the PAR contract), a donor representative could be invited to join the Board for the period that the network and the donor were in collaboration. The Alliance and APRO would not be members of this committee, unless invited.

The Original IDRC Structure - Committee of Ten: If the current steering committee were intended to be the committee initially established by IDRC, its members would have been the five unit directors, IDRC, and one representative from each of FECAICA, The Alliance and APRO, plus the Coordinating Unit Director providing secretariat services to the committee. When this committee was set up in May 1995, there were three national units - two sponsored by non-FECAICA members, (FEPYME and COHCIT), and one from a FECAICA member, (UATI-CR). At this time, the vision of CAISNET was that of a Central American network, not a FECAICA "net". This committee had a more limited function than the FECAICA/PAR steering committee. It reviewed only the plan and budget of the coordinating unit and the regional activities. While there may have been reporting of the general activities of the units, the national units' workplans and budgets were not subject to review, discussion, nor approval by this committee.

Lessons Learned: The donors should ensure that project steering committee members are appropriate to the project agreements that are monitored. The decision-making authority of the committee should also be clearly defined.

THE CAISNET COORDINATING UNIT

The CAISNET Coordinating Unit was first set up in May 1995, through a grant agreement signed between IDRC and FECAICA/CICR. The President of CODETI was named as its first director. In March 1996, under the FECAICA/PAR contract, FECAICA continued the services of CODETI as the coordinating unit and appointed CODETI's President, Jorge Monge as the CAISNET Manager, in addition to his continuing role as the Coordinating Unit Director.

The responsibilities of the coordinating unit remained much the same during these two funding agreements. It was to:

- assist in the set-up and launching of the national units and, in some cases, to assist Chambers in their management

- adapt or develop and test diagnostic tools for use by technical advisors

- train the technical advisors in their use

- coordinate activities on behalf of the national units with the Canadian partners

- assist the national units to improve their client services and their self-sufficiency

- establish and maintain regional linkages of benefit to CAISNET's goals and purpose

Of these tasks, only one required the exclusive contracting of CODETI - the development, testing and transfer of the diagnostic tools. Therefore, the evaluation of the performance of CODETI in fulfilling the tasks of the coordinating unit excludes the tools, even though in day-to-day practise the two were performed together.

<u>The Impact of the FECAICA/PAR Contract on the Operations of the Coordinating Unit</u>

Although the responsibilities for the coordinating unit remained the same under the two funding arrangements, the FECAICA/PAR arrangements dramatically changed the accountability of the coordinating unit and its interactions with the national units in three major ways:

The first was an increase in regional and Canadian linkage activities. IDRC funding to the coordinating unit had been severely restricted for activities of this type. The PAR funding provided the network with its first opportunity to demonstrate in a significant manner its coordination abilities and its "network value added" to SMI clients.

The second was the substantial increase in administrative and reporting work under the FECAICA/PAR contract. The IDRC budget was straightforward to administer, with bi-annual reports of expenditures under standard categories: salaries, operating costs, project steering committee meetings, staff training, and tools' research expenses. The coordinating unit reported only on its own activities, plus discrete activities involving mostly travel arrangements with the other units, with no requirement for proof of expenditure. By contrast, the FECAICA/PAR contract required (1) the signing of sub-contracts for almost every activity undertaken except travel, (2) a complex system of financial administration to handle the receipt of invoices in five different currencies from the units and Canada, the recording of these, and their eventual consolidation for presentation to CRC Sogema/PAR, (3) monthly financial submissions under standard cost categories (personnel, travel, training costs etc.) and under project activities (100, 200, 300 etc.), (4) recording of reimbursements received and those pending, (5) quarterly progress reports in Spanish distributed to network members, and (6) bi-annual and annual reports, produced in Spanish and/or English for the steering committee and CRC Sogema/PAR and distributed to network members (20 to 30 copies.)

In addition, the coordinating unit took over the administrative burden of the national units so they did not have to deal with CRC Sogema/PAR office on an individual basis. Where administrative tasks had required 10% to 15% of the time of a two-person IDRC coordinating unit, they now required 30% to 50% of a four-person unit under the PAR funding roughly equivalent to one and one half to two person-years. This administration became more complicated when the Chamber of Costa Rica insisted on an administrative review of all invoices for previously approved budget activities. This was not in keeping with FECAICA/PAR agreements.

The third major difference was the effect of the FECAICA/PAR contract on the behaviour of the network. Under IDRC agreements, the national units were highly autonomous and loosely affiliated as a network. More attention was given to the national units' performance than to the performance of the network as a whole. Under the PAR contract, emphasis shifted to the performance of the network represented by the consolidated efforts of the region (national units, coordinating unit and The Alliance), a consolidated CAISNET budget and expenditure position, and regional plans and performance to plans. The FECAICA/PAR contract structure assumed the national units acted in a smoothly coordinated and standardized fashion, with a high degree of interchange at <u>each</u> level of the network: the five Executive Directors, the five Unit Directors, the 17 technical advisors and the five information officers. Most importantly, there was also regional interchange at the level of services to SMI clients.

The task of the **Network Manager** was to "manage" this consolidated entity, represent it publically through meetings with other agencies, conduct network business through legal contracts and purchase agreements for services and goods for the network, and to report to CIDA through PAR and IDRC on the network's performance as a whole.

It appears as if this consolidated network was <u>not</u> intended by the members of FECAICA, even though their membership federation organization signed and endorsed a bid to the PAR program and signed a contract with PAR in which this was the implied type of regional network that FECAICA was sponsoring. Though this high degree of coordination was never explicitly stated in one place in the bid document or the contract, the network coordination system was never described as its opposite - a network linked only through the Executive Directors or through the Unit Directors.

Results and Effectiveness of the Coordinating Unit

The performance of CODETI in providing services as the Network Manager and performing coordinating unit functions cannot be easily separated from the fundamental problems associated with the lack of clarity around the network itself.

CODETI assisted the sponsoring organizations in setting up six units, five of which are operational. The fact that one unit, (UDATE), became non-functional was due to the poor performance of the executing agency.

When invited, CODETI assisted units with their business plans, marketing strategies, internal operations and self-sufficiency projections. CODETI's president participates regularly in the unit technical committee in El Salvador where his contribution has been highly rated by the IDB, a unit funder. Increasingly, he attends meetings in Nicaragua and in Honduras.

CODETI developed a system of reporting on network performance. The pressure to develop this system came, in part, from PAR which wanted consistent reporting on network results and impacts on SMIs performance. The other motivation for developing this system was an attempt by the President of CODETI to do his job - to be a manager and manage the units. Because the authority structure had not been properly defined, the units felt that CODETI was exercising "too much control" over their work and CODETI felt that the units were being "uncooperative" because a manager must first know what the units were doing in order to supervise their work. The evaluator found that both points of view were justifiable. The project had no mechanism to resolve disputes such as these. In producing this reporting system CODETI failed to consult with the unit directors as to what was practical and reasonable to report in advance of designing the system. The unit directors, on their side, resisted any attempt at outside supervision of their work. A negotiated reporting system was finally established. It is the evaluator's viewpoint, however, that it can be further simplified.

CODETI has coordinated regional training for the units and promoted the sharing of information through the Internet and Web access services. It has represented CAISNET to international donors, regional governments and other like-minded public and private sector groups and developed a regional modernization plan for FECAICA to be presented to donors.

CODETI has facilitated the visits of Canadians to the region for technical assistance, research, and training activities, and has, as well, organized similar activities in Canada for regional participants. CODETI provided logistical and information support to this evaluation mission which was much appreciated.

CODETI appears to have sought appropriate approvals for annual budgets and specific special activities and managed these activities within budget. It also appears to have kept adequate administrative records relating to the FECAICA/PAR contract and to the IDRC/FECAICA/CICR agreement. It has met its monthly and quarterly, bi-annual and annual reporting requirements to Canadian donors in a timely manner. It has also provided adequate secretariat services to the CAISNET steering committee.

The areas of least success of CODETI's services have been in the regional activities and the regional links to Canada. However, the disappointing results of these activities cannot be attributed to any one party when everyone was involved.

As the readers of this report are aware, there are serious conflicts between the members of FECAICA and the President of CODETI. In evaluating the performance of CODETI, the evaluator has taken great care to separate the performance of CODETI and the reasonable standard expected of a coordinating unit from the personal opinions voiced to the evaluator in the field mission about the character of the President of CODETI. This task was complicated because no proper statement of services expected from the coordinating unit as opposed to project activities which apply to all CAISNET participants, exists.

The evaluator concludes that the performance of CODETI in carrying out its responsibilities as a service provider to FECAICA for coordinating unit services under the IDRC and FECAICA/CICR agreement and the FECAICA/PAR contract, given the poorly conceived notion of the network, was adequate.

A major problem with the coordinating unit's performance had to do with the project's ill-defined power structure among the senior executives in its ambit: the Presidents of the Chambers, the Executive Directors of the Chambers, the Unit Directors, and the Project Director (the Secretary General of FECAICA), the Network Manager, and the Coordinating Unit Director. The project structure required a matrix management system - dual authority and accountability. However, FECAICA members' organizations, like most Central American organiztions, are highly centralized and do not appear to adjust well to other types of authority systems. Finally, the leader for CAISNET - the person that everyone follows - was never identified.

Management Issues of The Coordinating Unit

Accountability and Supervision: Under the FECAICA/CICR contract, the coordinating unit was sponsored by FECAICA. The coordinating unit director was responsible to the CAISNET project director who was the Secretary General of FECAICA. The Secretary General delegated to the Chamber of Industry in Costa Rica the responsibility to oversee the administration of the IDRC project funds only while retaining overall responsibility for the project in terms of implementation and results.

While this helped to clarify the accountability structure on paper, the structure was not functional in practise. The Secretary General located in Guatemala could not easily supervise the work of CODETI. There was no weekly or monthly communication by phone, e-mail or communication in meetings over project status. FECAICA/CICR failed to provide the local cost contribution for staff and office operating costs, making it difficult for CODETI to function. CODETI, for its part, did not provide adequate information to CICR which would help them understand the context of their administrative supervision. Also, the coordination between FECAICA and Costa Rica to have an overview of CODETI's work was not well worked out. In addition, IDRC did not assist in solving these problems when they became evident.

Under the FECAICA/PAR contract, FECAICA and its members agreed that the Network Manager was responsible to and reports to the Steering Committee. This, too, was not functional because the committee was too busy with other network agenda items to discuss the performance of the Network Manager separate from the performance of the network. In addition, a committee meeting twice a year for less than ten hours cannot adequately manage a manager and review his performance.

The project plan attached to the FECAICA/PAR contract referred to two positions: the Network Manager and the Coordinating Unit Director as if two separate people occupied these positions with the Coordinating Unit Director reporting to the Network Manager. However, when the resumes of the project personnel were attached to positions, the staffing relationship was the Network Manager and his assistant. This should have been clarified in the beginning.

The finding of the evaluation is that FECAICA failed to put in place appropriate accountability and supervisory systems to manage the coordinating unit and the Network Manager.

FECAICA recognized its responsibility to do so in May, 1998 and suspended project operations (but not salary support). The subsequent decisions taken to solve the problem were not based on a careful study of the management and accountability system and the roles of all parties, which they should have been.

Contracting and Operating Costs: To further complicate matters, FECAICA did not sign an adequate subcontract agreement with CODETI for its services. The CODETI/FECAICA agreement in the PAR contract describes the tasks and responsibilities to be undertaken. The expected activities and results of CODETI's services were not, however, separated from the activities and results of the project.

Similarly, the budget for CODETI's services was not separated out from the project budget like the five national units' budgets were. Consequently, with CODETI's costs comingled with those of the project, neither FECAICA nor the donors knew the true cost of operating the coordinating unit.

The "Power" and "Control" of the Network Manager: The common myth of this project is that the network manager had power and control. In reality, he had very little.

The FECAICA/PAR budget was approved by FECAICA and PAR. CODETI prepared the budget, but the final decision was taken by others.

The Network Manager had the responsibility to achieve "results", but no power or authority over the national units whose cooperation he required. The IDRC agreements required reporting to IDRC, not IDRC and the coordinating unit. In the agreements FECAICA signed with the Chambers, there was no mention of a network manager or a coordinating unit, nor the responsibility to cooperate or report to this unit. Any centralized "control" exercised by the coordination unit was actually determined by the units which decided on their level of sharing with the center.

The donors, however, assumed the coordinating unit was the network hub, and directed their questions to this unit before any of the national units were consulted.

If there were any "power" or "control" exercised by the network manager, it came from the position of being a coordinator and having access to overview information on the performance of all five units and, as well, being the first point of contact with the donors.

This sharing of information was done through reports which hardly anyone read carefully. It could have happened more effectively if the steering committee had been properly structured and the national unit committees had met as frequently as had been intended.

THE NATIONAL UNIT COMMITTEE

This committee was established by IDRC in its agreements with the Industrial Chamber and Associations. It had two names: the Project Steering Committee and the Unit Advisory Committee. Its normal composition was three members, a representative of the sponsoring organization, the Unit Director, and the coordinating unit director. A fourth member was added in El Salvador, the IDB representative. In two cases, the committee was supposed to include representatives from SMIs, government departments and other like-minded organizations. This never happened.

Under the first IDRC agreements, these committee were suppose to meet bi-monthly. Under later agreements the meetings were quarterly and then on an "as needed" basis.

The purpose of these meetings was to:

- review and approve the unit's workplan and strategy
- monitor the progress of the unit
- approve any organizational or structural changes to the unit except decisions on hiring or dismissing a unit director. This needed the approval of the unit steering committee and IDRC.

Despite its name, the committee did not function as a project steering committee. IDRC, the donor, was not a member of the committee. Several of the unit directors wanted the committee to function as a PSC. They were disappointed in the lack of Canadian attention and involvement with their units. IDRC, however, did not have the administrative travel budget to attend meetings in five countries.

Only one committee met regularly, that of El Salvador, so that the IDB/ANEPE project could be coordinated with CAISNET. The committee members spoke highly of the positive benefits of donor coordination and outside technical assistance. The evaluator noted that the business plan, strategy, budgets and management information systems in El Salvador were the most highly developed.

The other four units did not call national unit committee meetings because, in their opinion, they were not needed.

The role of the coordinating unit director on this committee was not clear. Several unit directors thought he was an IDRC representative. IDRC stated clearly in correspondence to one unit that the coordinating unit director was there in a technical assistance capacity, not in a representational capacity. Clarification of this to the other units would have been helpful.

The Executive Directors did not agree that IDRC should have control over the hiring and firing of the unit directors, as these were "employees" of the Chamber.

The evaluation recommends that the name for these committees be changed to Technical Advisory Committees and the coordinating unit director's role be clarified as a technical advisor. The committees should meet at least 3 to 4 times per year on a regular basis to review progress of the units with the aim of improving their practises.

The evaluation recommends that the Chambers have exclusive authority over the hiring and firing of the Unit Director. The donors should, however, add a clause to their agreements stating that if the unit does not perform to expectations, the donor will cancel the agreement for non-compliance.

THE "VALUE ADDED" BY THE NETWORK

The major finding of the evaluation is that from the perspective of the SMIs, the primary target group of CAISNET, the regional network added "no value" or "little value" to this group from project activities to date.

Nearly all of the CAISNET participants, however, believed that a regional network was valuable and important in the context of regional modernization and globalization. The issue, then, is how to determine what this value added will be and how it can be structured efficiently through a regional network.

This section discusses the different concepts of the regional network for the purpose of assisting FECAICA and the steering committee to clarify the structure of the network that they intend to sustain after Canadian donor funding terminates. This section would not normally be part of an evaluation report but is provided to assist decision-makers with options.

Sponsorship of the Regional Network:

Historically there were two main ideas for the sponsorship of the regional network. These were:

1. ***The Network with a Restricted Membership***: The sponsoring organizations of the national units would be restricted to the membership of the network sponsor. This is the concept presently in operation, where FECAICA has five members and each member has a national unit.

2. ***The Network with a General Membership***: This was the original idea of the network, whereby the network sponsor would be a sponsor for the benefit of the region. Under this concept, any country could have more than one unit with these units sponsored

by any group which provides consulting services to SMIs and commits to providing these in a self-funding manner. Examples of such groups would be industry associations, chambers of commerce, university departments, research groups, government agencies, and private-sector SMI membership groups.

The structure of CAISNET when the FECAICA/PAR contract was signed was that of a network with a general membership. In March, 1996 there were three national units, only one of which was solely sponsored by a FECAICA member, (UATI in Costa Rica). The other units in Guatemala and Honduras (sponsored by FEPYME and CONICIT respectively), had FECAICA members' participation; however, FECAICA members were neither responsible nor accountable for these units. The network continued for nine months under PAR funding (30% of the project time period). Over this period, however, the non-FECAICA members were essentially asked to leave the network (FEPYME), or were ignored by the other units. They were effectively isolated from the Network, (CONICIT), partially because of poor performance but also because they did not "fit" into the emerging FECAICA network.

The evolution of CAISNET into FECAICA"NET" essentially eliminates other regional groups which are not members of FECAICA from joining the network. The current FECAICA national units serve only five of the eight major industrial centers in the region. San Pedro Sula in Honduras, Panama City and Belize City do not have services. Panama and Belize are not members of FECAICA. Although ANDI has offices in San Pedro Sula, their activities are modest in comparison with the most active industry association in this region, the Chamber of Commerce and Industry of San Cortez. This chamber made representation to the evaluator as being interested in sponsoring a unit similar to the existing national units in CAISNET.

At this point in the project evolution, the concept of a regional network with a general membership may not be feasible. Since FECAICA and the CAISNET steering committee will, however, be required to reformulate their concept of and commitment to the network, it at least merits mention.

<u>What is a Network?</u>

A network is a group of interconnected or intercommunicating things, points or people. It can be informal, like a social network. Then, however, it would not be considered a project.

Understanding what a network is requires an understanding of three things: who talks to whom (the structure of the network), and what is talked about (the network content). Also required is an understanding of what the cost of the network is in terms of time and money.

In the CAISNET context, the primary purpose of the network content is that of providing benefits to SMIs.

The evaluator has considered only the options for a network and how donors could support these. Other aspects can to be determined by CAISNET members.

NETWORK OPTIONS

Structure of the Regional Network:

There are basically six possibilities regarding the scope of the regional network vision. These are:

1. No Network is Intended
2. The Status Quo Network as of June 30, 1998
3. A Virtual Reality Network
4. A Virtual Reality Network with Occasional Activities
5. A Functioning Network with Sustained Activities
6. An Enlarged Network Based on Common Interests

For each of these network models the role of FECAICA, the donors and the coordinating unit is discussed.

1. No Network was Intended: CAISNET is essentially national units only with no network among these units. The common activity among FECAICA members is to set up self-supporting consulting services to SMIs as part of each member's contribution to the modern-ization of their national industrial sector. Once achieved, FECAICA will then look for other common regional activities that their members can undertake. These may or may not involve the units or SMIs, but they will be common to FECAICA members and to the industrial sector which they support.

Under this option, the coordinating unit would not exist. Instead, a technical assistance group to FECAICA members would be hired to assist national units achieve greater service efficiency and self-funding as rapidly as possible. Once the self-funding direction is firmly established, the advisory services would be phased out. These services could be provided from Canada and/or from the region. They would initially have full-time personnel but these would become part-time and/or periodic towards the end of the contract.

The role of the donors is to assist an already existing regional network - FECAICA - to set up consulting services for SMIs through their member organizations. The end-of-project status would be sustained national units, each functioning independently of each other, with no coordinating unit and no network manager.

The most efficient method of funding this would be through a technical assistance contract to a Canadian company to provide advisory services and transfer funds to the national units for their declining operational subsidies. The executing agency should be an organization experienced in setting up and running profitable consulting services. FECAICA and its members would not likely be qualified to manage this contract since they are the beneficiaries of these services and do not have consulting service expertise.

2. The Status Quo Network: The network consists of five national units offering technical advisory and information services to SMIs plus a coordinating unit with a total regional staffing complement of 33 persons. The units typically consist of a director, two to four advisors, an information officer and a secretary. The units provide services to between 10% to 20% of the SMIs in each country and are supported by earnings and FECAICA members' contributions.

The coordinating unit sponsored by FECAICA has a director and three technical advisors. Its purpose is to assist in setting up and improving the services of the national units, to represent the network to other interested parties, to "champion" and expand the network's services to SMIs through on-going regional activities, and to report to donors. The estimated annual operating cost of this network, excluding regional activities, is between US $50,000 to $100,000 for each of the five units plus $180,000 annually for the coordinating unit at a total of approximately US $440,000 to $600,000 per year.

The role of the Canadian and sponsoring organizations is to continue to fund this network as it is presently structured. The evaluation findings do not support this option.

3. A Virtual Reality Network: The virtual reality network assumes the operation of national units with regional support to SMIs coordinated and supported through the fax, phone, and Internet.

The role of the "coordinating unit" is that of a technical assistance group to FECAICA members to help the units achieve greater efficiency and profitability in their services and conduct the preliminary research to identify Internet sites most helpful to SMIs and the units. The advisors will identify existing data sites that are set-up and maintained by others so that the units do not have on-going maintenance costs beyond the monthly network service charge. No data bases will be created. Once the self-funding direction of the units has been established, the advisory services would be phased out. The technical assistance services could be provided from Canada and/or from the region. They would initially have full-time personnel but these would become part-time and/or periodic towards the end of the contract. The executing agency would need to have experience in running profitable consulting services and in sourcing information through the Internet.

The donor's role is to assist FECAICA members set up profitable and accessible consulting services for SMIs, with a focus on value added to SMI customers through access to information and contacts through the Internet. The end-of-project status would be national units with no network manager and no permanent coordinating unit. Donors' investment funding would be for training personnel, funding the advisory service, and providing a declining share of the subsidies required by the national units.

The most efficient method of funding these activities would be through a technical assistance contract to set up and run the coordinating unit, and to transfer funds to the national units for the declining operational subsidies. The executing agency should be an organization experienced in setting up and running profitable consulting services and in organizing and administering low-cost, high value-added services for SMIs.

The evaluator considers this to be a reasonable option for the network structure. This proposal may not, however, be of interest to donors who wish to support regional collaboration in a more significant manner.

4. A Virtual Reality Network with Occasional Regional Activities:

This network vision assumes effectively functioning national units with regional activities for SMIs coordinated through the Internet, fax, and phone, and with any additional common activities funded through profits generated from the units' revenue and/or through contributions from network members. The regional coordination activities for SMIs would be planned and coordinated by the unit directors.

Under this option there would be no coordinating unit. A technical assistance group would be set up for the unit directors to assist them achieve self-financing as rapidly as possible, and to assist establishing a regional mechanism among the directors to decide on, fund and implement common regional activities for SMIs. Once one to two national units have achieved self-funding, i.e., the model has been demonstrated to be successful and one to two regional activities completed, the technical group would disband.

In this option, the donor's role would be to assist FECAICA members set up profitable and accessible consulting services for SMIs, with the surplus unit funds channelled to facilitate value-added activities for promising SMIs throughout the region. The end-of-project status would be sustained national units, no coordinating unit and perhaps a network manager, or a unit director with responsibilities for common activities. Donors' investment funding would be for training personnel, funding the technical assistance provided by the coordinating unit, and for providing a declining share of the subsidies required by the national units and perhaps matching the units' profits for common activities.

The most efficient method of funding this would be through a technical assistance contract similar to the ones described earlier. The executing agency should be an organization experienced in setting up and running profitable consulting services and in organizing and administrating low-cost, high value-added services for SMIs from several countries.

The evaluator considers this to be a reasonable option for the network structure. This proposal, however, may not be of interest to donors who wish to support regional collaboration in a more significant manner.

5. A Functioning Network with Sustained Activities: This network vision supports a medium to long-term goal that is carried out through a regional infrastructure. These goals might be the modernization of the Central American industrial sector (the goal of FECAICA), or improving the productivity and competitiveness of SMIs, (the goal of the units). Network members support network infrastructure costs and donor funding is secured to enhance or enlarge this infrastructure. The bare bones minimum of infrastructure is likely to be some combination of a coord-inating unit, a network manager, network meetings, and regional activities.

The role of the coordinating unit would be to support the goals of the network through planning, coordination, implementation, and reporting, and to represent the network vision and its success to interested groups. The coordinating unit could also develop project proposals that support the network's vision for presentation to interested donors. This network would likely have a network manager who would be responsible and accountable to its sponsoring organization. The national chambers and association organizations would be responsible and accountable to this manager for their agreed to performance results, for reporting on their sustainability levels, and for any funds expended from a donor's contribution. The network manager could also be the coordinating unit director. These two functions could, however, be separated.

The role of donors is to support the set-up of this network in partnership with network sponsors and to jointly fund network activities. The end-of-project status would be the same or improved regional infrastructure continuing but strengthened to operate in a more relevant and effective manner to achieve its goals. Usually donors would cover the equipment set-up costs of the network, help train its first staff, fund regional activities on a joint basis, and, as well, provide initial support for network operating costs, with this support diminishing over time.

The most efficient method of funding this would be through a program funding envelope where two project contracts were funded under one program approval. The first project contract would be to the network sponsor for initial set-up, training and support to the regional activities undertaken in partnership. If the national units were part of this network vision, then technical assistance similar to the advisory services provided earlier could be funded. This project contract would need to be provided on a sole source to the network sponsor, something which may be difficult for donors to secure.

The second project contract would be to a firm hired as a project manager and monitor which would be responsible through their contract for the funding of all core costs that are eventually to be funded by the network and the units. A project manager would be hired to ensure an acceptable level of reliable and timely financial reporting showing best efforts to generate earnings for the units and for the network infrastructure.

The experience of CAISNET has indicated that financial reporting at the unit level, especially when several donors are involved, is not reliable enough to issue a contract for transferring these funds directly to the unit from the donor.

The evaluator considers this to be a reasonable option for the network structure. It should be noted that this proposal would have a strong donor appeal not only to Canadian donors but to others who are interested in fostering regional collaboration, and economic modernization in a significant manner.

6. A Larger Institutional Network Based on Common Interests
This network vision is the original idea of CAISNET - the "Network with a General Membership" discussed later. Essentially, it supports an institutional network of groups which share similar goals of providing support self-sustaining services to SMIs in the region. This idea may no longer be relevant because of FECAICA's deep commitment to sponsoring CAISNET for its members only; however, the basic ideas are that:

(1) <u>any</u> appropriate organization could be the sponsoring organization for an industrial support unit;
(2 any country could have more than one unit;
(3) all groups with a unit would participate in the Project Steering Committee/Board of Directors of the Network.

Under this network vision the coordinating unit would be the regional coordinating body with a board of directors composed of representatives from each unit. The board would then have a network manager to run the network, to ensure common standards of work and methodology, and to coordinate reporting and funding.

The board would also be responsible for raising the funds to pay for the regional coordinating unit from membership quotas or donor project funds. The regional coordinating unit would sign contracts with each qualifying group, provide core funding support, provide training and technical support, monitor the units' performance to results and degree of self-sufficiency, manage the coordinating unit budget and staff, and provide secretariat services to the board.

The donor's role would be to participate with the board to assess individual organizations wishing to qualify for the network, provide set-up support and initial core funding to those which qualify, and fund the initial operations of the regional coordinating body until members' contributions to this regional body cover its costs.

While this idea may not be relevant today, it merits consideration because of the possibility of sharing network costs among a larger number of units than the present five.

Considerations for the Selection of a Network Model:

The advantages generally are interchanges among members, regional integration, technical exchanges, joint training sessions, shared lessons learned from a similar method of services to SMIs, access to a wider information base, potential business and technology transfer opportunities, and cost savings through coordination and pooling of resources.

The disadvantages are: common reporting requirements, higher degree of standardization to facilitate coordination, raising funds to pay for the coordinating unit, time and energy spent in coordination, forms of representation by the unit director which may not be in accordance with ones wished by other members, and the decision-making process must be with others.

EXECUTING AGENCY ASSESSMENT

Assessment of FECAICA as an Executing Agency:

FECAICA as an organization is well recognized and respected in the region. Its major impact has been its representation of the views of the industrial sector to the Central American Presidents as the region embarks on opening its markets and creating a greater degree of trade liberalization. As such, the CAISNET project is fortunate to have such a prestigious network sponsor.

Yet, for all its powerful profile, FECAICA has virtually no organizational implementation capacity. It has no office space of its own. The three persons who are designated as the secretariat of FECAICA have other careers and do not work for FECAICA on a full-time basis. The President of FECAICA changes every year, on a rotational basis among the five FECAICA members. This assists in maintaining the political balance of power in the region. Yet there appears to be little continuity from one President to another and little corporate memory in terms of files, reports and previous commitments. Since CAISNET started, there have been three different Presidents of FECAICA, each one with a different attitude toward, knowledge of, and interest in CAISNET.

Though FECAICA's members represent the largest capitalists in the region, the federation itself has little in the way of financial resources. For the FECAICA/PAR project it was unable to raise the funds to provide a guarantee to CRC Sogema/Costa Rica to facilitate payments to CAISNET members. For the IDRC/FECAICA/CICR project, it was unable to raise $84,000 to contribute towards the local costs of the coordinating unit even though this amount was the lowest local contribution requested in the project.

In addition, and most importantly, because of its federation structure FECAICA has no jurisdiction or supervisory role over any member's organization, activities or staff. Consequently, FECAICA has no institutional authority to ensure compliance with agreements.

FECAICA's level of fiduciary management of the FECAICA/PAR contract and the IDRC/FECAICA/CICR agreement was inadequate for reasons already indicated in this report.

In addition, FECAICA represented its members on the steering committee yet failed to keep them adequately informed of key decisions taken at this meeting.

The evaluation finding is that FECAICA as a federated institution is an appropriate endorser and sponsor for a network. FECAICA does not, however, have the management or administrative capacity to function as the executing agency for a development project contract.

The evaluation recommends that no further contracts be signed with FECAICA, the federation, for the CAISNET project unless it develops a plan for its network acceptable to CIDA and IDRC which includes an adequate management and administrative structure and funding.

Assessment of FECAICA Members as Executing Agencies for the CAISNET Project

On May 22, 1998, FECAICA and its members reviewed the situation of the FECAICA/PAR contract, and passed a unanimous resolution asking PAR to suspend the FECAICA/PAR contract for one month so that activities could be reprogrammed. The decision was also taken at this meeting that the Chamber of Costa Rica should assume the role previously held by the Secretary General of FECAICA in the supervision and monitoring of the FECAICA/PAR project.

Subsequently, the Executive Director of CICR delegated its responsibility to the Director of UATI.

The evaluator finds that delegation of the supervision of the project to any of the national units or the members of FECAICA will not solve the fundamental management problems of CAISNET. It is too minor an action to adequately address the major problems of this project.

The evaluator recommends that delegation of the supervision of the project to any of the national units or to the members of FECAICA be discontinued and a full time CAISNET project manager be hired in its place to manage the project (see bridging proposal.)

The evaluator recommends that none of the FECAICA members be considered as executing agents for the new phase of the project.

FECAICA members are first of all national membership organizations. Their largest source of income is from membership fees. In return for these fees, the members expect the Chambers to represent the interests of the national industrial sector. While they have a mandate to participate in regional projects with national benefits, they have no natural mandate to manage them.

Second, taking over the supervision from FECAICA also means taking over its financial obligations under these contracts. It is not likely that CICR is fully knowledgable about what these are.

Third, the chambers do not have the human and physical resources to back up any person nominated to manage or supervise this project. Their accounting staffs are already stretched to the limit handling their own internal operations and expanding donor project portfolios. No chamber, with the exception of Nicaragua, has enough physical space to add staff to supervise the project.

Fourth, except for their participation in FECAICA, very little of the Chambers' day-to-day work is concerned with regional issues. From a reading of the five annual reports of FECAICA members, their international emphasis is more on Mexico, Latin America, the Dominion Republic, Canada and the United States than Central America. While business consulting services for SMIs are important services, they do not rank as a high priority in the national agendas of the Chambers as outlined in their reports to members.

Fifth, the management of CAISNET is a full-time job. So is being the UATI director. The two can not be adequately performed by one person.

Sixth, under the FECAICA Federation, all members are considered equal in status. The selection of one Chamber with power and authority over the others could jeopardize the political balance that is one of FECAICA's major achievements.

Seventh, the delegation of supervision for CAISNET to UATI seems to be directed towards an effort to control the coordinating unit only. There are other problems, perhaps not as serious, but problems none the less, in the other units, including UATI itself, which UATI/CICR are not addressing. The evaluator questions whether this supervision will be broad enough to deal with the entirety of CAISNET's problems.

Eight, under FECAICA's Federation structure, each member retains autonomy of operations and is accountable only to its national membership, not to any other regional or national body. How does UATI/CICR propose to supervise the internal departments of the other members with greater success than did CODETI?

LINKS TO CANADA

The expected results of the Canadian connection in this project were unspecified. In 1995, when the CAISNET Coordinating Unit was established, APRO and its members were reviewing their organizational structure and considering setting up a Canadian Technology Network. It appears as if IDRC's purpose in funding APRO was to assist FECAICA in setting up CAISNET and to establish long-term linkages between two industrial support networks: the national network in Canada and the regional network in Central America for "technological exchanges" - exchanges which were unspecified. In 1996, when The Alliance assumed the APRO obligations as a result of the merger, more emphasis was placed on establishing business linkages between manufacturers than on technical exchanges. There were still no results attached to this Canadian connection.

CAISNET was promoted as a Central America network with a continuing connection to Canada. Unfortunately neither FECAICA's members nor The Alliance have adequate membership revenues to maintain a continuous, long-term funding commitment through fully dedicated staff and regular meetings. Although FECAICA and the Alliance signed a cooperation agreement during the project, this agreement was based on "best efforts". The reality is that the Canadian link will last only as long as Canadian donor funding exists. These temporal links should not, therefore, be considered a fundamental characteristic of CAISNET that could be sustained.

The recommendation is that the long-term, general connection of

CAISNET to Canada should be ended. CAISNET should be described as a regional network only. This network could, however, for a certain time period, and for defined results, have one or many Canadian connection(s).

The value added of CAISNET's link to Canada must be assessed in terms of the benefits to SMIs. There were no business deals reported between clients of CAISNET and Canadian firms. The main beneficiaries of the Canadian connection were FECAICA and its members which are the delivery channel to SMIs, and not its primary target group.

FECAICA executives were invited to Canada by the Alliance with project funds and provided with a training seminar in association management in conjunction with Canadian Manufacturers' Week. The Alliance's International Director visited the region for a sectoral survey of needs and priorities and retains excellent relations with FECAICA and its members.

This has been an excellent experience for both organizations. The evaluator was consistently told by FECAICA executives that there should be more activities of this type in the project. While fully appreciating the value of these activities, such events provide little in the way of "value added" to the SMIs and should not be part of an institutional strengthening project for FECAICA and its members.

The expected business deals did not materialize for several reasons. The first was that the Canadian component in this project has continually been underfunded and the first activity to be reduced.

The second was the limited size of the SMI target group. Eighty-six percent of the region's firms are under 20 employees. From a Canadian business perspective, these firms are unsuitable partners because of their low productivity and quality standards. The firms of interest to Canadians would be 4% of regional firms, the larger ones, with 100 or more employees, better capitalization and stronger balance sheets. Although such firms are FECAICA members, they are not the target group of CAISNET.

Third, there was a mismatch between the business needs identified in Central America and the expressed interests of the Canadians. The Alliance conducted a survey of members interested in working in Central America. The members who were interested were looking for distributors of their products, not for joint ventures or suppliers. On the other hand, Central American businesses were looking for export sales.

Making connections between firms in different countries as a match-making service requires a high degree of coordination. There was a poor sharing of information between the Canadian

Project Liason Officer, the Coordinating Unit, and the National Units. It is not surprising that SMIs did not connect.

The evaluation finding is that the Canadian connection must be more focused on results and would be more of a technical assistance type of connection rather than the business deal most of the time. Notable exceptions could be if project activities had an industrial sectoral focus where both Canadian and Central American firms have something in common to exchange.

The recommendation is that the long-term Canadian connection, should be replaced by a one-off project type of activity, where specific results are achieved in a given time period. This could be with The Alliance or with any other appropriate Canadian organization.

THE NATIONAL UNITS

OVERALL SUMMARY

The national units as a group are providing needed specialized services to SMIs. A total of 506 clients have been served from January 1996 to June 1998. This was 6% above the IDRC target for this period but only 75% of the PAR target for roughly the same period.

Costa Rica, El Salvador, and Guatemala, the oldest units, have built up client loyalty with repeat business comprising between 30 to 50% of their services. Honduras and Nicaragua, which have started within the last twelve months, are showing acceptable results for start-up operations.

The consulting services were to have several innovative features:

- the use of the SUDIAC diagnostic tools as an cost effective aid to identifying problems faced by individual manufacturers.
- a "consortium" approach to client problem-solution whereby individual advisors draw on experts and technology in the local economy rather than building up this expertise in the unit itself
- a "one stop" outlet for technological information and referral for SMIs
- services to SMIs were increased beyond those of national industrial advisors through the benefits available from the Canadian and regional networks to which they were linked.
- an aggressive cost recovery program geared to ensuring the

financial sustainability of the unit

The innovative features of the unit existed more on paper and in discussions of their potential, than in practise. The features that worked most successfully were the consortium approach to client problem-solving, especially when Canadian consultants were used, and the use of the SUDIAC tools. The tools were, however, more of an aid to the consultants than to the SMI.

The least successful aspects of their services were the network features: the links to the region and to Canada. These did not materialize to any degree of significance.

None of the units achieved self-sufficiency. Costa Rica and Guatemala were targeted to reach this goal by December, 1998. Due to differences in accounting practises and presentation of results, the "best guess" estimates of self-sufficiency are between 10% to 40%, earnings as % of total annual operating costs; and between 50% to 70% when earnings and National Industry Association contributions are considered. In conclusion, the units as a group are effective.

The units are, however, less efficient. Unit start up, with the exception of El Salvador, has been unnecessarily slow. The units are endorsed by their Industry and Association sponsors yet they continue to be regarded as "foreign projects" not fully integrated into the sponsors' organizational structure and run from a project perspective, not as a responsibility centre within the organization.

More attention needs to be paid to unit annual planning, budgeting, contract management, billing and collections. In addition, personnel policies and incentive schemes need to be reviewed to retain the well-trained staff working for the units.

Overall Recommendations: Support to the five units should be continued; funding, however, should be contingent on certain fundamental changes in annual planning and budgeting, personnel policies, financial management, client services, operational procedures and reporting.

HISTORICAL PERSPECTIVE ON THE NATIONAL UNITS

At the project's conceptual stage, three different options for the national unit structure and ownership existed. The long term implications of these options appear not to have been considered before they were included in the "network experiment". They are presented here for the consideration of decision-makers.

Units as Independent NGOs: The original idea was that the units, once they became sustainable, would become independent from their sponsoring organizations and set themselves up as NGOs with their own Boards of Directors. This explains why they were called "national units", rather than their more accurate description as a department or division providing services to SMIs.

Units as National Coalitions: Another idea was that the unit sponsor would be a coalition of national organizations with existing programs for SMIs. By late 1997 this concept was effectively abandoned with the failure of UDATE (COHCIT). The idea was, however, still active at the time the FECAICA/PAR contract was signed, as the COHCIT agreement was still in effect in April 1996, one month after the FECAICA/PAR agreement.

Units as a Chamber or National Association Department: The third idea was that the units would disappear as a separate project and become fully integrated into the sponsoring organization as services to SMIs. This is the legal structure of the national units at present; however, the units identify more with their donor and project status than with the Chamber or Association sponsors.

The remainder of this section covers various components of the units' performances with appropriate recommendations.

GOAL

Goal of the National Unit: The goal of each unit is to improve the competitiveness and productivity of national SMIs through the provision of non-financial support services.

Recommendation: This should be retained as the unit's goal.

PURPOSE

Single-Purpose or Multi-Purpose Units: The units were intended to be single-purpose units providing basic consulting and information services. Two of the five units, Honduras and El Salvador, provide consulting and information services only.

Costa Rica, Guatemala and Nicaragua are more multi-purpose member-service units providing SMIs with a range of services which are sponsored by the Unit and the Chamber. These include training courses, workshops, sub-contracting services, websites and for Costa Rica, management of the Chamber-sponsored annual Excellence Award Program.

While these are services to SMIs, the use of the unit's staff time and energy spent organizing these events takes away the time available for consulting work. In addition, some of these events are funded by other donors (Taiwan, Holland, the OAS, and the ILO). It also appears as if the unit's staff time has not been billed to these donors as administrative fees for the running of programs sponsored by these donors.

Recommendation: The Units retain the single-purpose focus of providing consulting services.

Start Up: The five units have been operational for between 10 to 36 months. Costa Rica and Guatemala were established in June and July 1994 respectively, El Salvador in September 1996 (IDB), Nicaragua in April 1997, and Honduras in May 1996 (IDRC) and November 1997 (PAR).

Two units, Costa Rica and Guatemala, are in their second phase of IDRC funding. In the first phase for Guatemala, the unit was sponsored by several national organizations without a clear understanding of what the role of each was. As a result, the unit suffered from poor staff turnover, inadequate facilities, and poor services to SMIs. Costa Rica, in its first phase, also experienced a high turnover of staff which was remedied through the introduction of an incentive system. Unfortunately both units began on a poor footing since the SMI services were provided free at the outset, making it difficult to charge for them later. The Costa Rica unit actually began to function more efficiently at the end of 1995. Guatemala replaced its Unit Director at the end of 1997 which brought about a more systematic approach to SMI services.

The start-up for Nicaragua was delayed because of a pilot project, the aim and goals of which were not clear. The delays in Honduras were due to problems with securing adequate physical space. In addition, there was confusion between the national unit funded by IDRC and the one funded by PAR. The start-up of the units was inefficient due to poor project design and the unreasonable expectation of having a consulting service, which is essentially a business, run by a committee representing universities, research centres, government and private sector groups.

Lessons Learned: Start-ups need to be planned and managed with simple organizational and administrative structures. Business services run by committees cannot be managed or sustained in the long run.

TARGET GROUP COVERAGE

The target group is SMIs with between 10 to 100 employees. This eligibility criteria appears to have been chosen without regard to national practises. Most of the countries consider a medium-sized company to be one with between 50 to 150 employees, while small-range companies have between 10 to 50.

Between 60% and 73% of all clients served fall within the target population range as shown below from the most active units:

SIZE OF SMI CLIENTS
by Employee Number/Firm (1997)

Unit	Costa Rica		El Salvador		Guatemala	
	No.	%	No.	%	No.	%
< 10	2	3%	5	20%	4	18%
10-50	36	60%	18	70%	7	30%
51-100	8	12%	1	3%	7	30%
101 +	15	25%	2	7%	5	22%
	61	100%	26	100%	26	100%
smallest	6		8		3	
largest	250		125		200	

Note: total figures of SMIs served do not agree with those for annual results as not all firms were reported with the number of employees.

As the units gain experience, unit directors have suggested that the target population is too restrictive with 96% of the population being small firms with under 20 employees. The major reason is larger firms can usually afford higher rates and longer contracts which benefit the drive for self-financing. The units have also found that having large, well-known industrial leaders as clients makes their services more credible to the smaller and medium-size firms. There will likely be a tendency for larger clients given the nature of the Chambers' membership.

While donors are supporting these units, however, they should insist that small and medium-sized firms be targeted in all countries. The one exception should be Nicaragua, where the industrial sector is small and underdeveloped. Here, the unit should be providing services to all manufacturing firms.

Recommendation: Small and medium firms be targeted in all countries except for Nicaragua where the industrial sector in terms of firms is so small. In Nicaragua the unit should be providing services to all manufacturing firms.

<u>Membership Services and/or Sector Services</u>: Four of the five units offer preferential consulting rates and services to SMIs which are members of the Chamber. Only one unit, El Salvador, has a policy that services are to be provided to any SMI which can pay whether or not they are members. They have no differential rates. The goal of this project is to assist SMIs, not to build

up the membership of the National Industry Chambers or Associations. While donors are financing the units, there should be an equal access policy to all SMIs. Once donor funding ends, the Chambers can then set the rates as they wish.

Recommendation: The donors should insist on one rate for all clients of the unit. Discounts for members should be discontinued.

GENDER ISSUES

Women's Participation - Firms Owned by Women: The units reported that less than 5 out of 506 firms were owned by women. The initial project documents stated that 80% of SMEs were owned by women, implying that this project would assist many women. While this may be true for SMEs, few women are owners/managers of manufacturing firms with more than 10 employees. This project target notion should be dropped. No national data is available on manufacturing firms owned and managed by women for any of the five countries.

Chambers should be encouraged to sponsor a one-day forum on women in business/women in industry (for example, on International Women's Day, March 8th), to raise awareness of successful women in this sector and the variety of opportunities for employment and investment available. This could be built into annual workplans.

In addition, many women work in the production areas of industry. More attention needs to be paid to the safety and health conditions for women (and men) in plant assessments.

Recommendation: The Units/Chambers are to conduct a one-day forum to promote the participation of women in business/women in industry (for example on International Women's Day - March 8th) featuring prominent national women. The purpose would be to raise awareness and publicize successful role models in this sector and the variety of opportunities for employment and investment available. This is to be built into annual workplans.

In addition, more attention needs to be paid to the safety and health conditions for women (and men) in plant assessments.

CENTRAL AMERICAN COVERAGE

CAISNET does not have national units in two Central American countries: Panama and Belize, largely because these are not FECAICA member countries. CIDA regional program officers had envisioned as wide a regional participation as possible.

National unit offices are located in capital cities where 70%-85% of the SMIs are located. The only major regional city with a large percentage of SMIs not served by the network is San Pedro Sula. ANDI has an office here, however, the strongest and most active business and industry association, is the Camera de Comercio e Industrias de Cortes. This Chamber offers information, subcontracting services, seminars, and training. It does not have a specialized industry support unit and would be interested in partnering with CAISNET to have one established.

Setting up an ANDI office in San Pedro Sula is not recommended at this time. First, the Tegucigalpa office is still in the early stages of growth and needs the full attention of ANDI. Second. ANDI has given less support to the national unit than the other five members. The current unit has inadequate physical space, equipment and secretarial support. In other units, support to the unit for operating costs has been paid by the chambers. Here, it has been provided by PAR.

Recommendation: (1) FECAICA invite The Executive Director of the San Pedro Sula Chamber to join the CAISNET project. (2) The bridging project manager and the coordinating unit director be commissioned to meet with the Chamber to develop the plan for a unit to be sponsored by this Chamber on similar conditions to those of the other units. (3) Financing for the start up of this unit be recommended by FECAICA for inclusion in the new phase project. [Estimated cost over three years: $300,000.]

(4) FECAICA open discussions with Panama and Belize to gauge interest in setting up national units. (5) The bridging project manager and the coordinating unit director be commissioned to meet with the Chamber or Association indicated by FECAICA to develop the plan for a unit on similar conditions to those of the other units. (6) Financing for the start up of this unit be recommended by FECAICA for inclusion in the new phase project. [Estimated cost over three years: $600,000.]

CONSULTING METHODOLOGY

The general consulting methodology, developed with the diagnostic tools is:

1) use of a diagnostic tool by an advisor to assess the company's current performance. This involves a plant tour, discussions with senior management, financial and marketing staff, and production managers, supervisors and staff
2) a written report to the company on the results of the diagnosis
3) an oral presentation to the company including suggestions for improvements
4) the company decides on and develops its plan for improvement
5) the advisor is to monitor the company's implementation of its plan
6) when needed, outside, highly specialized consultants are

contracted for specific technical issues under the supervision of the unit's advisor.

This method has been used by all units although the frequency of its employment varies among units. Advisors report that the tools are effective in helping inexperienced consultants determine general weaknesses, in helping the firms to prioritize areas for improvements, and as a marketing device to start a relationship with a firm. Units that use this method generally have a higher percentage of repeat business, (30% to 40%), requiring less time, energy and money spent on promotion.

The most skilled implementors of this methodology are Guatemala and El Salvador. While Honduras and Nicaragua are following the method, their client base could be accelerated through coaching and mentoring sessions provided by experienced leaders.

Costa Rica began using the diagnostic method. Recently, however, it has relied more on direct technical advice, the more traditional consulting work. Both methods appear to be successful with the balance between the two methods dependent on each country's circumstances and client demand. Consequently, the tools should not be **THE** defining characteristic of the unit's consulting practise.

Recommendations: (1) The El Salvador unit should mentor Honduras and the Guatemala unit mentor Nicaragua until they become proficient in use of the tools. The costs for this on-the-job training should be paid for by the remaining funds in the PAR contract. Estimated cost $6,000. Duration one week. (2) The units should not be defined by use of the diagnostic tools. These are but one of their consulting resources.

TYPES OF CONSULTING ASSIGNMENTS

CAISNET documents state that the units will consult in all three areas where firms could be weak: marketing, production and finance plus the two areas that are cross-cutting themes to these: strategic planning and human resources. The units have, however, specialized primarily in production and in strategic planning more than in marketing and finance. Requests for accounting and financial services were subcontracted out. No unit retains an accountant or financial analyst.

As a result, one of the consistent weaknesses among the units services and reports to clients is the lack of financial information to assist them in making decisions regarding recommended actions. No firm should embark on investments for improvements unless the expected impact on profits has been considered. Generally speaking, with notable exceptions, the skill of staff members in presenting recommended actions in financial terms is weak.

There is also a healthy tendency to market services to a particular sector so that advisors can see sectoral needs.

The El Salvador unit, with a sales plan targeted to industry sectors, was able to identify a common supply problem among plastics manufacturers and assist the industrial association to purchase large quantities at a significantly reduced price. This came about from a careful study by the unit of the target firms in this sector. In addition, new advisors are being hired based on specific depth and experience in a sector. None of the industry sectors are specifically large in any Central American country. Expertise in one country can easily be shared throughout the network.

Recommendations: (1) Unit advisors should be provided with a basic course in understanding and preparing financial analysis to assist decision-makers make decisions about future actions.

Lessons Learned: While good consulting skills are a basic requirement, sector-specific knowledge gives unit personnel a competitive advantage. Unit teams should analyze their sectoral skills and those of their outside consultants, then consciously target industry sectors, and/or adjust their human resources to satisfy the sectors where consulting demand is the strongest.

UNIT OWNERSHIP/ORGANIZATIONAL INTEGRATION

The National Industry Chamber or Association is ultimately responsible for the unit's program, staffing and funding. This Chamber of Association is, therefore, the owner of the unit which is a project. The units are incorrectly called "national" units implying a separate legal entity. They are, in fact, departments or divisions of their sponsoring institutions' organizations.

The units remain, however, as "foreign" projects in these sponsoring organizations. The organizational charts of the Chambers and Associations do not show the unit included in the organizational structure. Most of the unit staff are considered contract workers, not staff, therefore, they are not eligible for social benefits. Only one of the five Chambers considers the unit directors as equal in status to the other Chamber directors. Although the executive directors of the units stated that they valued the units, several unit directors and staff expressed the opinion that the unit/project was unwelcome at the Chamber and did not fit into traditional lobbying and political representation activities.

Recommendation: Donors should require formal acknowledgement by the National Chamber and Associations that they wished to sponsor and have a unit within their organization. This sponsorship would involve integrating the unit into the chamber with respect to its

organizational structure, annual work planning, and accountability structure and staffing policy.

If any FECAICA members do not wish to continue to own an industrial support unit they should make this decision as soon as possible so that a new sponsoring organization can be located over the bridging period. Or, alternatively, the unit can be legally registered as an organization, its constitution drawn up and approved, and its membership and Board of Directors established so that it can participate in the network on the strength of its own institutional performance.

UNIT STAFFING

A "typical" unit is staffed by a director, between two to six industrial advisors, an information officer, and a secretary/receptionist. There was no specified unit size when the units were set up. They could be as small as three persons: one director, one advisor and one administrator/secretary.

The five units have a total of 29 staff, ten of whom are women, one unit director, one information officer, three advisors and all secretaries/receptionists, for a total of 34% of staff.

NATIONAL UNIT STAFFING (as of June 30, 1998)

Unit Location	Director	Advisor	Information Officer	Secretary	TOTAL
Costa Rica	1	3	1	1	6
El Salvador	1	3	1	1	6
Guatemala	1	4	2	1	8
Honduras	1	2	0	*1	4
Nicaragua	1	2	1	1	5
TOTAL	**5**	**14**	**5**	**5**	**29**

* the secretary is a receptionist only.

Four donors support 18 positions in the units covering 64% of the staff. The remaining eleven positions are supported by the sponsoring organizations through their counterpart contribution or through the earnings of the unit.

SUPPORT TO UNIT STAFF

Unit	PAR/IDRC	IDB	Other Donor	Chamber	TOTAL STAFF
Costa Rica	2	2	1	1	6
El Salvador	2	2		2	6
Guatemala	4			4	8
Honduras	3			1*	4
Nicaragua	2			3	5
TOTAL	**13**	**4**	**1**	**11**	**29**

* the secretary is a receptionist only

Staff Turnover: The oldest serving employee is three and one half years, the newest, two months. Most have been in their positions between one to two years. The initial years of the project were plagued with high staff turnover due to unclear mandates, poor management of the unit, low salaries, and poor physical work conditions such as no phone or office facilities. The work force appears more stable now since most of these problems, with the exception of low salaries, has been rectified.

The Unit Director: The five unit directors are highly educated (Masters and Ph.D.s), with suitable educational background, relevant industry and consulting experience, good command of English, and good management and administrative skills.

Four unit directors have 8 to 10 years of production-related experience in industry or consulting and are therefore "credible" with clients and industry associations. These directors have a business deal-making and entrepreneurial edge to their work, and they continue to manage and consult, spending between 20% to 40% of their time with clients. The other director, though less experienced, is bright and enthusiastic and enjoys the full support of the Chamber in his work.

With the units as small as they are, at least eight to ten days per month of the director's time should be spend in consulting or on promotion of the unit's work to potential clients. Increasingly, however, the directors are being drawn into work and politics of the Chambers' that does not directly relate to their unit's line of business. In addition, they are spending too much time in administration of the unit because of poor use of the secretarial position in administrative support work. As a result, they are not performing one of the most important tasks of a director, ensuring the provision of quality services to their clients.

Recommendations: (1) At least 40% to 50% of the director's time should be spent in consulting work with clients and/or in promotion of the unit's services to potential new clients [8 to 10 days/month]. Another 20% to 40% of his time should be use for quality control and client feedback [4 to 9 days], with management and administration responsible for 20% to 30% of the director's time [4 to 7 days].

Technical Advisors: The "ideal" profile of a unit advisor was first envisioned as someone who was a recent university graduate in engineering or business with a working knowledge of English and the ability to publish articles. While this profile "fits" with the idea of CAISNET as a research and pilot project, it is an inappropriate background for consulting to SMIs.

CAISNET has 14 advisors. In observations during the field visits, it was clear that the most successful advisors were those with a university degree in engineering and business and 8 to 12 years or more of experience in a manufacturing plant, preferably as the head of production. The second most successful advisor profile was that of someone with a university degree in engineering or business combined with private sector experience in either consulting or university teaching.

The least successful advisors are those who are educated but inexperienced in industry and/or consulting. It was also noted that younger advisors tend to lack credibility with their clients. Unfortunately the low salaries initially set by the Chamber and Associations as well as the donors, were inadequate to attract the higher calibre of workers needed.

Recommendation: The job qualifications for the technical advisors are to be changed to a requirement for eight to ten years of production and/or consulting experience for senior advisors. The qualifications for junior advisors are to be scaled accordingly. Existing staff without these qualifications are to be retained, but new staff should meet the new selection criteria.

Individual or Team Work for Advisors

Four of the units assign one advisor to an SMI client. Guatemala is the only unit that carries out work assignments based on a two-person team approach. This has considerable merit and bears considering. The advantages are:

1. a second opinion, enabling a higher degree of confidence in the diagnosis and recommendations

2. a more holistic, multi-service service approach to the SMI client using, for example, a marketing and a production person

3. continued client service if one advisor leaves, is ill, or is working with another client. Several firms complained that they were frustrated by educating newly-assigned advisors about themselves and having to pay the unit for the consultant's time, even though from their point of view, the unit should have already known this baseline data about the firm. A two-person team insures the firm is always served by an advisor who is aware of the company's background and previous service by the unit.

4. this team approach provides opportunities for the apprenticeship training of junior consultants to a senior and more experienced person, ensuring a level of standardization among unit advisors through the mentoring process.

5. the company becomes accustomed to receiving two persons from the unit so that the appearance of a Canadian or a regional consultant is not seen as an special event, but rather as the general approach of the consulting unit. This can be in many combinations: the director and an account manager, a senior consultant and a junior, a unit staff person and an outside advisor, an advisor and a Canadian expert or an advisor from another regional unit.

6. two persons to review and agree on the report and to provide quality assurance on the report for its technical content and its language, style and organization.

The disadvantages are:

1. consulting rates cannot be raised much higher to pay for two people. The unit consultants do, however, have a large amount of non-billable time available. Use of this option would mean that there would need to be better scheduling of consultants and a better use of staff time.

2. requires more coordination of personnel.

Recommendation: The units should consider experimenting with this method of consulting for six to twelve months to determine its effects on the quality of service and revenues.

<u>The Information Officer</u>: From the initial IDRC project design, each unit was to include the position of an information officer whose salary was paid for by the Chamber or Association. There was also a requirement to hire an information officer as part of the FECAICA/PAR contract. There are four information officers in the project. Only Honduras has not filled the information officer position. All of these positions are funded by the Chambers and Associations.

The job description and tasks for this person are not well defined, however, nor are they integrated into the consulting services provided by the advisors. Most of the information officers provide general services to the Chambers and Associations, handle the computer problems of the unit with software and hardware, or assist the manger in keeping unit performance data up-to-date.

Most units have some sort of information: magazines, books, trade journals, files by industry, etc. These, however, often contain outdated information or information that is relevant to the advisors but not to the SMI clients. A full-time salaried person should not be hired by the unit to find and organize information sources for the staff. Most of the chambers have information and library services which advisors should have access to for particular needs. In addition, advisors should maintain their own files on information that they need.

Recommendation: The information officer position should be eliminated from the unit staff and another technical advisor hired (or an accounts manager hired - see following recommendation).

Any information needs the units have can be hired out to a student on a short-term contract or acquired by the technical advisors in their non-billable time. The information requirements of firms should be costed into their contracts and the technical staff's time spent, (perhaps at a lower rate), to locate the information that clients need. The unit's performance data base should be set up and maintained by the secretary.

The Secretary/Receptionist: From the initial IDRC project design, each unit was to include the position of a secretary. Four of the five units have full time secretaries. Honduras has a receptionist only who basically works for another Association project. The two positions in Costa Rica and Guatemala are funded by Canadian support and the two in El Salvador and Nicaragua are funded by the sponsoring organization.

Although called unit secretaries, the women in these positions function as personal secretaries of the unit directors. Their job descriptions should be reviewed so they become administrative assistants providing professional services to the units. Along with this increase in responsibility, there should also be an increase in their salaries.

The administrative assistants should be in charge of making corrections to the consultants' reports and formatting these reports so they have a professional appearance. These reports are products of the unit and need to look professional as well as contain credible technical knowledge.

The administrative assistant should also be in charge of the unit's contract registry book, contract management, preparation of invoices, reporting on daily accounts receivable, collection status of accounts, and the control sheet for consulting deliverables due and delivered.
Recommendations: The secretarial positions should be reclassified as an administrative support position and the job description expanded from director's services to unit services including support of the technical advisors and to the unit's contract and invoice/collection processes. The salary for this position should be increased. In addition, the secretary should be provided with training in advanced word processing skills.

Additional Staffing: A Financial Administrator: Once the volume of financial transactions warrants this, the unit should consider hiring its own financial administrator on a part-time basis to manage the unit's accounting books, its bank account, donor agreements and funding, accounts payable, invoices, collections, and preparation of the cash-flow forecast for the director's review. This would help prevent the Chambers from "borrowing" donors' funds when their cash-flow is low. This should, however, be tied to the keeping of separate account ledgers for the unit.

Recommendation: The units should consider hiring a financial administrator on a part-time basis to provide financial administration and contract billing and collection services for the unit for the unit's separate accounting books and its separate bank account.

STAFF TRAINING

Staff members were provided with three types of training: training in Canada, regional courses, national courses, and on-the-job consulting training by visiting Canadian experts.

The national courses were "paid for" by the Chambers and Associations and involved letting unit staff occupy empty seats in Chamber seminars and workshops given for members. Although advisors found these courses to be helpful, they were not always informed of their availability nor given an opportunity to indicate their interest. This is a missed opportunity, as the unit advisors could also use these sessions to promote the unit's services and make potential client contacts.

TRAINING COURSES: 1996 to 1997

Course Name	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	TOTAL
January to December 1996						
Diagnostic Tool (PIC)		6				6
Environment Management	4	1	4		3	12
January to December 1997						
Diagnostic Tools (PIC)	5		6	2	3	16
Environment Management	6	6	6	3	3	24
Qualimeter	6	6	6	3	3	24
Informatics & Information	1	6	6	2	3	18
Results & Impact	1	3	6		2	12
Strategy & Workplanning	1	1	1		1	4
Financial Management		1	6	1	1	9

TRAINING COURSES - 1998

Course Name	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	TOTAL
Qualimeter				2		2
Environment Management				3		3
Financial Management	2					2
Informatics & Information			6	2		6
ISO 9000		3	5	3	3	14
ISO 14000		1	6	3		10
Benchmarking Strategy	1	1	1	1	1	5
BTO Strategy		1	1	1	1	4
Marketing of Services		1	2	1	1	5
CAISNET Strategy	1	1	1	1	1	5

In total, 28 training courses were held from January, 1996 to June, 1998 throughout the region. Total participation was 181 staff. This averages out to between 7 to 8 courses each for the director and technical staff. Few if any courses were provided for the secretaries. Approximately 70% of the courses were related to the use of the five diagnostic tools, with the balance being more meetings rather than training sessions related to the planning and coordination of regional activities in benchmarking, BTOs, and project strategy, work planning and reporting. Most of the sessions were held in-country with the technical advisors and unit director; however, seminars and planning meetings for directors were held in one member's country, as were ISO 9000 and ISO 14000, to maximize the use of the Canadian consultant's time. This practise should continue.

The most popular courses were the ISO 9000 and ISO 14000 courses because of their course content. The technical advisors interviewed stated that the courses involving the tools were not as well planned as they expected. There was little time to ask questions, no guidance on how to write up a diagnostic report, and no information on the scale on which the firms were measured. In addition, there was no practical demonstration, in a plant, of how the tools were used.

In general, the training addresses advisor's needs only partially as the SUDIAC tools are only one of the many consultant's tools used.

Technical advisors indicated they would like to receive courses in up-to-date methods of designing and assessing the efficiency of production systems, work measurement and standards, compensation and productivity-based wage plans as well as courses in planning and controlling operations: aggregate planning and capacity considerations, purchasing and inventory management, material requirement's planning, scheduling and controlling manufacturing operations, quality assurance, cost, investment and maintenance.

In addition, there is a need to improve their skills in consulting: business writing, report writing, rapid appraisal, use of the computer to improve consulting, editing and presentation skills, selling skills, and coaching skills to companies.

Training courses in Canada were held in 1995 and 1996 in which advisors went to APRO members. These were general on-the-job types of courses, with no specific course outline. While the experience in Canada was personally rewarding for the advisors, their job skills were not enhanced in relation to the expenses of this training because the characteristics of SMIs in Canada are very different from those of the region. For this reason, these training courses should be discontinued.

In May 1997, The Alliance hosted a training session in Canada for eight executive members of FECAICA, the Chambers and Associations. This, strictly speaking, had nothing directly to do with improving the competitiveness of SMIs, as the sessions were geared to improving the work of the industrial associations. Again, while this was an important introduction to The Alliance and helped to cement the relationship between FECAICA and The Alliance, the training session had little to do with the goals and purpose of the project. Such courses should be continued under an institutional strengthening program of The Alliance with FECAICA and its members, but should not be continued under CAISNET proper.

Recommendations: Training courses are still advised for the technical staff in topics related to financial costing, production, and consulting techniques. The secretaries should also be offered courses in computer skills to upgrade their administrative capabilities. Courses in Canada should be discontinued.

Seminars for the executive members of FECAICA and the individual industry chambers and associations should be discontinued under CAISNET funding as they are not in keeping with the goal and purpose for the project.

Obligations Following Training: There is a heavy demand for ISO 9000 training by unit advisors because of SMI enthusiasm to become certified. There is also a personal incentive for advisors to take the course to add "value" to their curriculum vitaes for future employment. There is a legitimate concern by unit directors that technical advisors will complete the ISO 9000 training courses and then shortly thereafter leave the units to become consultants.

Recommendation: All unit employees who have taken ISO 9000 training or have taken it before December 31, 1998, are to sign an agreement with the Chamber/Association that they will continue to work for the unit for 24 months following completion of the courses offered in 1998. The agreement is to specify that if anyone leaves before this time, the cost of the course, US $1,500 per person plus travel, hotel and per diem costs paid on their behalf, will be repaid to the unit. No person will be accepted into the upcoming course without a faxed copy of this signed agreement being placed on file in the coordinating unit's office. The only instance in which a trained person who leaves before 24 months would not have to pay is when he/she is dismissed by the unit.

Note: the evaluator met with the ISO 9000 and ISO 14000 trainers. They recommended that ISO 9000 training be continued but that the region wait for the second version of environmental training ISO

14002 to be issued as this is more comprehensive.

UNIT REVENUES

It was impossible to make a reliable estimate for the consulting revenues earned by the units. There are several reasons for this. The first is the inconsistent financial reporting practises used by the units. Some report revenues as before incentives are paid, others report net revenues after commissions are paid. Some recognize revenue when it is earned, others when the cash is received. Secondly, there are different reports of revenues including the reports to IDRC, the reports of the coordinating unit to PAR, and the reports presented to the evaluator during the mission. These three different records of the same revenues are not consistent.

The semi-annual or annual reports to IDRC include a list of firms and the money that has been collected. During visits to the offices these amounts of money could not easily be verified from revenue records kept by the units, nor from a rapid appraisal of contact records, accounts receivable and collection records in all units. In addition, it is not always clear from the Chamber/Association's audited reports where the unit income is reported.

BEST GUESS ESTIMATE REVENUES (US $)

Unit	**Jan-Dec 96**	**Jan-Dec 97**	**Jan-July 98**
Costa Rica		$85,408	$50,000 est
El Salvador		$20,914	$24,310
Guatemala	$5,750	$10,800	$30,000
Honduras			$2,500
Nicaragua		$500	$1,054
TOTAL	**$5,750**	**$117,622**	**$107,854**

Recommendation: There should be an agreement with the Chamber's and Association's auditors as to the basis on which revenues will be reported. Their full consulting income should be deposited in and credited to the unit's bank account.

OPERATIONAL PERFORMANCE

The TORs of the evaluation required that recommendations be provided for the improvement of the operational performance of the units. These have been organized into seven categories: annual planning, personnel policies and compensation, financial management, client services, operational procedures, reporting, facilities and equipment.

ANNUAL PLANNING

Unit Annual Plans and Budgets: The units have several plans and budgets. The usual plans are those for each donor based on the agreed to activities for the year. These plans are based on expected expenditures to project budgets. While adequate for each donor, they are incomplete as the financial plan for the unit because they do not include the expected client earnings and the contribution from the chamber or association. In addition, these plans and budgets are usually drawn up based on the fiscal year of the donor, rather than the fiscal year of the unit and sponsoring organization. This makes it extremely difficult for the unit's financial plan to be integrated into the normal planning cycle of the chamber and association.

Costa Rica	October 1 to September 30
El Salvador	January 1 to December 31
Guatemala	July 1 to June 30
Honduras	January 1 to December 31
Nicaragua	July 1 to June 30

In addition, many of the budgets do not include adequate budget notes including monthly cost assumptions and the names and monthly salaries of the persons employed by the unit.

Recommendations: A complete plan and budget is to be drafted for each unit based on the fiscal year of the Chamber or Association. The assumptions of the budget in terms of donations, sales and costs are to be detailed in the accompanying notes to the budget. These plans are in addition to the donor plan and budget based on approved donor budgets. Reporting to the donors is to be against this approved plan, as well as to the donor donation budget.

PERSONNEL POLICIES AND COMPENSATION

Job Descriptions: Several of the unit staff indicated that they did not have current job descriptions which included the terms and conditions of their employment and their salary and benefits' level.

Recommendations: Job descriptions for all of the positions in the unit are to be prepared and reviewed by the coordinating unit staff and director. They should also be formally approved by the Executive Director of the Chamber.

SALARIES

Several of the salaries of the units have been established by different donors with the result that advisors with similar educational background and experience are paid differently. Within the same unit some are paid in US dollars, some in Canadian dollars, and others in local currencies, creating wide differences in salaries when there are currency devaluations. In addition, the salary scales for the unit have been set without regard to Chamber or Association personnel policy, and without consideration of salary scales paid to personnel with similar qualifications and experience in the local economy.

Recommendation: The coordinating unit director is to be asked to carry out a review of the salaries of each of the units for presentation to unit directors and executive directors of the chambers for decisions on salary scales. The review will include a study of the job descriptions of the unit, a review of the Chamber/Associations existing salary scales, personnel policies and benefits, review of the compensation policies of similar industrial consulting services, and any other relevant information.

The unit salary review is to be presented to the director, executive director and personnel manager of the Chamber for a thorough discussion and rationalization of the personnel policy and salary scales of the unit.

INCENTIVE SCHEME

The units have an incentive scheme based on the advisor's receiving 10% of the amount of the account receivable when it is collected. This scheme is not, however, based on the usual consulting practise, which is to provide bonuses to all members of the unit based on the performance of the unit at the end of the fiscal year and the relationship of its performance to its plan.

Recommendations: The unit is to review its incentive scheme, and to change it along with its personnel compensation scheme to reflect modern business practises.

<u>Authority and Responsibility of the Unit Director</u>: The unit directors are responsible for the performance of the unit but they do not have the authority to carry out their work. Not all directors have signing authority for (1) the unit's bank account,

(2) contracts and invoices for the unit's services, and (3) the purchases and expenditures agreed to under the unit budget.

Recommendation: The Chambers and Associations are to grant the Unit Director the authority to carry out the work of his/her position and are to put in place system's checks and balances (monthly reports etc.), to ensure that the work is being carried out competently.

FINANCIAL MANAGEMENT

Financial Reports: None of the units have separate accounting records for their operations, even though the units are functioning as a different and unique type of business compared with the other activities of the Chambers. Consequently, it is impossible to determine the financial results of the operations of the units from the consolidated financial statements of the Chambers and Associations. Indeed, none of the annual audited statements of the Chambers reviewed by the evaluator showed earnings by the units separately even though they were reported separately to donors.

There are two investors in these units: the chambers and the donors. Yet neither investor can determine whether or not its scarce capital is well utilized under the current financial presentation.

Recommendation: The Chamber is to provide an audited report to the donors on the total operations of the unit including its assets, liabilities, income, expenses, sources and uses of funds and the transfers between the chamber and the unit. This is to be prepared at the time of the annual chamber audit.

Unit Bank Account: The units have several bank accounts depending on their agreements with donors. These are, however, mainly for the receipt of donor funds. None of the expenditure reports to donors include reconciliation with these bank accounts, for example, showing a photocopy of the bank statement which corresponds to the reported balance on hand. It appears as if the earnings of a unit are not deposited into these accounts, but in some cases are added to Chamber general revenues. Two units have "sustainability accounts" in which a percentage of earnings has been deposited to be used to maintain the unit after donors' contributions have ended. There is no guarantee, however, that these funds will be used in this manner. In some instances, unit directors have had no money to make necessary office supply purchases.

Recommendations: Each unit should have one bank account in which all funds should be deposited and from which all expenses are paid. Two signatures should be on the bank account: the

accountant of the Chamber and the unit director. The unit should be required to report on its earnings and expenditures and donor contributions. These figures should be reconciled with the statements for the bank account.

If this system is adopted, the recommendations is that IDRC agree to release the sustainability fund to be used as working capital for the unit.

Authorization of Expenditure: While the unit has a budget, the unit director in most cases has no authorization over the expenditures of this budget and must seek executive director approval to make expenditures already agreed to in the budget. This seriously reduces the director's efficiency in running the unit.

Recommendation: The Chamber and the Association are to agree to a level of discretionary spending for the unit director. The Chamber is to manage the unit based on its plan and budget, rather than on approval of each individual expenditure item.

Unit Audit: None of the donor agreements have requested audits of the unit's financial results. This should be an automatic requirement when donors are providing subsidies to bring services to self-sufficiency.

Recommendation: An external audit of the unit's financial operations is to be completed at the same time as the external audit of the Chamber/Association. Results of the unit audit, including the auditor's opinion, are to be provided to the donor.

OPERATIONAL PROCEDURES

Contracts, Invoices and Payment Management: Several units are not aware of their accounts receivables outstanding, nor do they have an administrative system that allows them to determine how much of a contract has been billed, collected, and how much remains to be paid.

Recommendations: The units are to set up a numbering control system for their contracts and invoices, and a computerized control system where contract opening and closing, invoices and collections are entered and monitored.

CONSULTING SERVICES

Consulting Rates: All units bill on an hourly basis. No unit had, however, a written rate schedule. Only El Salvador charges the same rate for all SMI clients as had been specified in the universal access concept of the original project design.

Discounts range from 25% (Costa Rica) to 50% (Guatemala). The Costa Rican rates are the highest, at between US $25 to $40 per hour, billed in American dollars. The Ministry of Economy and SMIs visited indicated that these rates were high for the majority of SMIs.

CONSULTING RATES

UNIT	Hourly Rates	Daily Rates 8 hr day	Membership Discount
Costa Rica	US $25-40	US $200-320	25%
El Salvador	US $11-20	US $88-$160	No
Guatemala	US $15-25	US $120-200	50%
Honduras			Yes
Nicaragua	US $12-20	US $96-160	Yes

Recommendation: Donors should insist that rates be the same for all clients of the units while they are subsidizing them. A rate policy for the various services should be developed and written down and discussed with the coordinating unit. The Costa Rican unit is to review its rates based on feedback from its clients.

Time Use: Very few of the advisors are aware of the actual time taken to complete a task versus the time that has been billed to the client. While the client costs are to be "reasonable" and "accessible", the advisors and the unit directors need more awareness of actual time taken versus time billed to improve their contract estimates. Not all of a consultant's time taken on an assignment can always be fully billed to a client. Inexperienced consultants, poor writers, and those with only basic computer skills will take longer to complete assignments than consultants who are more proficient in these areas. Successful consulting requires conscious time-management.

Recommendations: Advisors should draft up time budgets when preparing contract quotes, and record their time for their own use to improve their time-management skills.

Contracts: Some of the unit's contracts have been developed on the run. They have not been reviewed by lawyers and the Chamber or Association directors. These should be like a master contract with standard clauses in the first part of the contract and the terms of reference of the work assignment attached as an annex. Once the terms of the master contracts have been agreed on, they can be placed in the computer of each advisor, and they be responsible for producing the draft contract for review and signature.

Several SMIs indicated that the terms of their contracts were quite vague. From the rapid appraisal made of the contracts, the evaluator would agree with this. The terms of reference should include:

- the name of the advisor(s) who will carry out the work
- a list of activities that will be done by the advisor(s)
- a list of activities that the company will complete during this period and what the company agrees to do to assist the advisor(s)
- a time budget for the assignment broken down by activities including the number of hours for the plant visit and the time for meetings, the number of hours for research and information gathering, the number of hours to prepare the report, and the time to present the report.
- A section with the title "deliverables" should be added to the terms of reference. "Deliverables" are the products of the work. The term can include reports and, as well, training sessions for x hours for y number of persons, etc.
- the estimated date for completion of each of the deliverables and for the contract should be specified.
- billing details are to be provided

The contract should include the name and telephone number of the unit director with a statement that the director will call to discuss the progress of the assignment with the client and that the client is encouraged to call the director to discuss any aspect of the work.

Recommendation: The contracts between the units and the companies should be reviewed by lawyers, the Chamber, the Association and the Unit Director to ensure that they are adequate. The terms of reference for each assignment should be attached as an annex to each contract and be written so as to be more "client friendly".

BILLING AND COLLECTION PRACTICES

Although the units are advocating modern business practises for their clients, all units are using antiquated billing practises. Invoices are hand- delivered and are therefore always associated with plant visits. At least 30-50% of an advisor's contracted time is spent in writing diagnostic reports, planning in-plant training sessions, and preparing plans. When the billing is associated only with plant visits, clients are more likely to associate hours worked with hours spent in the plant. For this system the delivery of invoices is dependent on a plant visit which is time and-labour intensive for billing.

Collections have in most cases also been handled by plant visits or dropping into offices to pick up cheques. Again, while this may be the "current cultural practise", every effort should be made to have messengers pick up and deliver invoices, have invoices faxed or cheques directly deposited into the bank with proof of deposit faxed to the office.

Contract Monitoring

After the unit contract has been signed and returned, the secretary should be responsible for:

- filing all contracts
- preparing a control sheet to monitor contract start and end date, expected/actual billing dates and amount billed
- preparing and issuing all invoices
- monitoring outstanding accounts receivable
- monitoring payments received and deposited into the bank as well as contract and billing status
- the report should be updated weekly and provided to the director.

Recommendation: The secretary is to take over the contract monitoring system and update it weekly.

Unit files: Client files contain confidential information. The technical files should be separated from the contract and billing files and each set of files should be stored in a cabinet which can be locked. The technical advisors should keep only working files in their desks. All technical reports should be stored in filling cabinets.

Recommedation: The unit is to review its handling of confidential business information and contracts and upgrade it for security.

FACILITIES AND EQUIPMENT

Computer Equipment: Generally the units have adequate equipment. More laser printers are, however, needed for the issuing of professional looking reports. In addition, the units could benefit from overheads and screens for client presentation, rather than reading from their reports as was reported by some SMI clients.

Recommendation: See bridging report.

Office Space: None of the five units have adequate office space in comparison to what is needed and in comparison with what other Association Departments with comparable levels of public responsibility have.

Adequate office space would include a reception area for a secretary, an office for the director, separate offices for the consultants if possible, or at the very least, one room with partitions between the desks.

The office space was to be part of the Chamber/Associations' contribution. The contribution was never budgeted or specified, however.

The units require adequate space for:
- locked filling cabinets for files
- reception area
- quiet space for consultants to prepare reports and make phone calls to clients
- an office for the director
- a meeting room
- space for common office equipment (photocopier, fax)
- storage space for overhead projector and screen.

The project has paid for an e-mail connection. In some cases, however, this has been for Chamber use and not the unit use. The connection should be for the unit use with access within the unit office space.

Recommendation: The space needs of the unit are to reviewed and adjusted so that staff members have adequate working conditions.

THE DIAGNOSTIC TOOLS

This section describes the tools and the issues around their transference and ownership.

DESCRIPTION: WHAT ARE THESE TOOLS?

The CAISNET tools are called SUDIAC, the Spanish acronym for the Unified Industrial Diagnosis System for the Improvement of Competitiveness. The SUDIAC system is "a kit" - a consultant's toolbox - of analytical methods to assist the technical advisors in their diagnosis of the condition of SMIs. There are three types of tools: an entry level tool, a holistic tool and specialized tools.

The entry level tool, called "The Analysis Towards Change", assists the technical advisor in determining the SMIs' attitude towards change. This tool is infrequently used because the advisors find that firms will not pay for it. Advisors do, however, use the concepts of this tool to assist their work with clients.

The holistic tool - "The PIC" - is the most commonly used tool. It evaluates eight functional areas of the firm: strategic planning, production and operations, quality assurance, commercialization and marketing, human resources management, finance and accounting and environmental management. Based on a rating assessment scale in response to questions, the advisor identifies the strengths and weaknesses of the SMI through comparison to norms, prioritizes them, and writes a report on the findings for the company, proposing a plan for improvements. PICs usually require between 36 to 40 hours of consulting work to complete. At market prices, the company would be invoiced between US $600 to $1000 for this report. Units do, however, commonly provide this service at a deep discount, (for US $150 to $300), or for free, in anticipation of a longer-term contract.

There are four specialized tools: the QualiMeter, the FinanceMeter, the Manufacturing Tool, and the Environment Assessment and Improvement Tool. QualiMeter was developed by the Quebec Society for Quality. CODETI holds the exclusive license to reproduce, distribute and commercialize this tool for Central America and the Caribbean. The Qualimeter, because of its North American origins and its connection to ISO 9000 certification, is the most commonly used specialized tool. The others are infrequently or never used.

Who developed these tools?

With the exception of Qualimeter, the President of CODETI, Jorge Monge, developed these tools from 1991 to 1994. The tools had been originally introduced by IDRC in Singapore and Malaysia. CODETI took these models, adapted them to the Central American reality, translated them, and, in addition, developed new tools. IDRC paid for the research and testing of these models in Central America as part of two project grants: one to CONICIT and the other to FECAICA/CICR. Both grants named Jorge Monge as the researcher who, (among other duties), was responsible for development of the tools.

How were the tools transferred?

Once the tools were developed, CODETI signed a transfer agreement with the Chamber and Associations. These agreements, signed between 1996 and 1997, acknowledged CODETI as the owner of the tools and the only one with the right to make changes to the tools or sell them. The Chambers received the right to use the tools for a two year period, renewable annually. The transfer cost varied per tool, between US $6,500 to US $10,000, which included the manuals, software, training and the right to new versions.

The cost to each unit for a complete set of the six SUDIAC tools would have been between US $40,000 to $50,000. The Chambers did not pay for these tools in cash. Rather they agree to have their units use the tools through consulting services at US $25/hour, until the cost of the tools was covered. This was the equivalent of between 260 and 400 hours (32 to 50 days) of consulting work per tool, or 1600 to 2000 hours (200 to 250 days).

The transfer agreements were similar in structure to licensing agreement contracts. In a grant project, however, they served no practical purpose. The research and development costs, manuals and training cost for the tools essentially represented by the US $6,500 to US $10,000 cost of the tools was paid for by donor funds, not by the units, or by CODETI. Revenues earned through use of the tools went to the Chambers and units, not CODETI or the donors.

CODETI signed these transfer agreements in 1996 and 1997. None of them have been cancelled. Apparently, they have been automatically renewed.

<u>How were the tools used?</u>

The units have made use of these tools. The degree of use varies, however, depending on the skill and ability of the unit's advisors and the business strategy of the unit. Inexperienced advisors relied most heavily on use of the tools. Experienced advisors, with well honed diagnostic tools, did not use the tools nearly as much.

In 1996 and 1997, when the tools were first introduced, they were used in 18% to 60% of all consulting assignments. Now, however, their use has slipped to between 10% to 50%.

The initial issue of the tools had a complicated computer software program. Several units modified this program with the assistance of CODETI or by themselves. One unit, notably El Salvador, improved the tools by deleting repetitive questions and adding more pertinent ones.

The SUDIAC tools are not the only ones used by the units although they are the most common ones. Other units, notably Guatemala and El Salvador, have introduced alternate tools from other local and international sources.

<u>What is the demand for the tools?</u>

There is no demand for the tools by SMIs.

SMIs assume that the methodologies of the tools are a part of their advisor's skills. They prefer to pay for a consultant's solutions to problems, rather than to pay for a report that only outlines their problems.

Those firms which agreed to pay for a diagnostic tool found the analysis too general to be of assistance in solving their problems. The evaluator reviewed five diagnostic reports and confirmed this observation.

The diagnostic tools have been commonly cited as a cost-effective aid for SMIs to identify their problems. The evaluation could not verify this. Very few companies have purchased the tools and used them independently, without the advisors. The diagnostic tools' benefit is to the advisor and to the unit. Use of the diagnostic tools encourages repeat business as it adopts a long-term perspective to working with the company rather than the type of consulting which is a one-time, problem-solving specific approach.

The tools must, however, be carefully used. In many cases they are too general to identify practical solutions to problems that the businesses have. General advise is not considered by SMIs to be "good value" for the money spent on consultants. The benchmark by which a firm is measured to determine its score is neither clearly described nor understood, so advice based on a comparison with this norm could be poor or misleading to a firm.

The correlation between having a completed diagnosis and becoming more competitive is misleading. While the tool identifies areas on which to work, this identification can in no way demonstrate that one firm will be more competitive than another.

WHO OWNS THE TOOLS?

The evaluator was asked to determine who owns the tools. The answer is: still unknown.

The Chambers, on behalf of the units which use the tools, claim ownership since the tools are considered part of the CAISNET project in which they are participants.

CODETI claims ownership under the intellectual property laws of Costa Rica, because they were developed by its President. The tools have been legally registered in the name of CODETI, the Foundation.

The IDRC lawyer who worked on the tool ownership file has left the Centre and the other IDRC counsel consulted would not give an opinion because he was unfamiliar with the file.

The evaluator is not an expert in intellectual property laws in Canada or Costa Rica. Based on the contractual agreements, however, it would appear as if CODETI, CONICIT, FECAICA, the Units, IDRC and CIDA have a claim to these tools. The only CAISNET player who has no claim on these tools is CRC Sogema/PAR.

Although CODETI developed the tools, the Foundation did not pay for their research and development. These costs were covered under IDRC's agreement with CONICIT. The evaluator did not review this agreement, but normally institutions have a claim to the intellectual property goods of their employers or sub-contractors.

IDRC has never signed a grant agreement with CODETI for the development of these tools. Had it done so, the ownership would not likely be an issue.

The IDRC agreement with FECAICA/CICR has no intellectual property clause, a surprising omission for a research organization. The agreement, however, does state that project goods, referred to as "project equipment and materials", are the property of FECAICA and CICR. If the tools are considered a "good" of this project, then they would be owned by FECAICA/CICR unless CODETI/Jorge Monge had an agreement specifying otherwise.

The FECAICA/PAR contract contains an intellectual property clause which is standard in all contracts related to CIDA funding. This clause states that all intellectual property developed under the contract is the property of the Government of Canada. The third version of the Holistic Tool, the FinanceMeter and the Environment Assessment and Improvement Tool, were completed during the FECAICA/PAR contract, therefore, the tools might be considered the property of CIDA.

The FECAICA/PAR contract defines intellectual property and clearly states that CIDA, not CRC/Sogema, is the owner of any property financed under the PAR contract.

The Units claim ownership of the tools because under their agreements with CODETI, the tools are considered paid for after a certain amount of consulting time has been spent using them. El Salvador, Costa Rica and Guatemala have likely completed the number of hours needed to claim ownership of the tools. Unfortunately, however, accurate records that could be used to establish to substantiate this claim do not appear to be available.

Only one tool appears to be clearly owned by CODETI, the QualiMeter. The evaluator did not, however, review a copy of CODETI's agreement with the Quebec Society for Quality.

The recommendation is that this issue be settled as soon as possible. There is an urgent need to do so. Since CIDA and IDRC have a potential claim as owners, these donors should jointly hire an outside lawyer as mediator. Ideally, this person will be fully bilingual (Spanish-English), a specialist in intellectual property law in Canada, and be someone who has has knowledge of and experience with the intellectual property laws of Costa Rica and the other Central American countries. This mediator will

review the legal depositions of these seven groups attesting to their claim. The results of this mediation should be binding on all parties concerned.

It is recommended that IDRC's legal department add an intellectual property ownership clause to all of its future agreements.

CAISNET CONTRACT HISTORY

The following chart lists the governing contracts and agreements that comprise the CAISNET project, beginning in 1991.

CONTRACT HISTORY

BENEFICIARY	START DATE	END DATE	AMOUNT
CONICIT Costa Rica	December 91	October 94	$247,726
FEPYME Guatemala	February 15/94	January 31/97	$265,095
CICR Costa Rica	April 22/94	December 31/96	$242,910
APRO/Alliance Canada	May 17/95	September 14/98	$148,240
FECAICA/CICR	May 17/95	September 14/98	$314,760
FECAICA	March 27/96	September 26/98	$1,100,000
CONICIT Honduras	May 3/96	May 2/98	$244,720
ASI El Salvador	May 31/96	September 23/98	$219,000
CICR Costa Rica	January 1/97	January 1/99	$106,280
CIG Guatemala	January 1/97	January 1/99	$112,000
CADIN Nicaragua	February 18/97	February 18/99	$150,000
TOTAL			**$3,150,731**

CAISNET PROJECT - PAR REMAINING FUNDS

The estimated financial position of the FECAICA/PAR contract is shown below. The evaluator did not review the FECAICA/PAR financial records.

CAISNET PROJECT
PAR REMAINING FUNDS
ESTIMATED AT AUGUST 26/98

CAISNET-PAR ORIGINAL BUDGET	$1,100,000
TOTAL EXPENDITURES UP TO 31 JULY	$ 757,000
ESTIMATED FUNDS REMAINING as of 1st August	$ 343,000
PROJECTED EXPENSES: AUG & SEPT	$ 160,000
BALANCE ESTIMATED AT SEPT 30/98	**$ 183,000**

IDRC FUNDING

The following chart shows IDRC advances for its grant agreements. While advances are not expenditures, they are a close approximation for expenses in a project as complex as this.

IDRC CAISNET FUNDING

TITLE	AMOUNT	START DATE	END DATE	ADVANCES TO DATE
CONICIT/ Government of Costa Rica	$247,726	December 91	October 94	$198,907
FEPYME Ind. Support Unit Guatemala	$265,095	Feb 15/94	Jan 31/97	$185,907
CICR Ind. Support Unit Costa Rica	$242,910	April 22/94	Dec 31/96	$236,913
CONICIT Ind. Support Unit Honduras	$244,720	May 3/96	May 2/98	$100,999
APRO now /Alliance	$148,240	April 13/95	Sept. 14/95	$131,715
FECAICA (Guatemala)	$314,760	May 17/95	Sept 14/98	$302,587
ASI Ind. Support Unit El Salvador	$219,000	May 31/96	Sept 23/98	$114,400
CICR Ind. Support Unit Costa Rica	$106,280	Jan 1/97	Jan 1/99	$94,440
CIG Ind. Support Unit Guatemala	$112,000	Jan 1/97	Jan 1/99	$98,000
CADIN Ind Support UNit Nicaragua	$150,000	Feb 18/97	Feb 18/99	$133,300
TOTAL	**$1,735,971**			**$1,597,168**

FECAICA/PAR EXPENDITURES

The following chart outlines the estimated local contributions in Canadian currency equivalents. None of these figures were placed beside budget items. There was no consistent reporting on expenditures of these amounts for the network as a whole, although several units reported figures to IDRC.

These figures were not confirmed by the evaluator.

LOCAL CONTRIBUTIONS

CONTRIBUTOR	AMOUNT (CDN $ EQUIVALENT IN LOCAL CURRENCY)
FECAICA for PAR	$500,000
APRO/Alliance	0
FECAICA/CICR	$84,300
CONICIT-Honduras	$178,328
Costa Rica	$168,866
El Salvador	$179,109
Guatemala	$138,481
Nicaragua	$121,709
TOTAL	**$1,454,683**

BUDGET FOR CAISNET

There was none.

The budgets were either for all for units, for the coordinating unit, or for institutional strengthening. There was not, however, a total project budget for CAISNET.

SUSTAINABILITY OF CAISNET

NATIONAL UNITS/COORDINATING UNIT

<u>What is the definition of the sustainability of CAISNET?</u>

The necessary and sufficient conditions to state that CAISNET had achieved sustainability would be:

- an efficient management and administration of each unit and the coordinating unit
- each unit and the coordinating unit has at least sufficient revenue to cover their costs. The sources of revenues could be a combination of earned revenue, project donations, or contributions by sponsoring institutions
- evidence that the "network" between the units and the coordinating unit and among the units is operating to support its goals

CAISNET would <u>not</u> exist if the coordinating unit did not exist. Without this unit the five national units would be essentially FECAICA<u>NET</u>.

<u>What was the Original Sustainability Plan for CAISNET?</u>

There was no sustainability plan for CAISNET in the beginning. There was, however, an expectation on the part of donors that the network would become sustainable. When this was to occur, how much donor support would be required to reach this level, and what operating level of earnings would be required by the network, was not, however, ever specified in agreements.

For the five national units, only the Costa Rican and Guatemalan IDRC project approval documents give a sustainability date, December, 1998. Neither of the two units were aware of this specification, however, nor was it included in IDRC grant agreements.

Similarly, there was no plan for the sustainability of the coordinating unit. IDRC project approval documents stated that revenues to support its operation would come from network revenues, National Chambers and Associations of Industry and Central American Governments. There was, however, no date by which IDRC funding would end, nor were there any details about which operating costs would be covered by other sources of funds.

The FECAICA/PAR agreements between FECAICA and its members stated that they would guarantee the sustainability of their units and contribute towards the sustainability of the coordinating unit and the network. No plan was ever drawn up to do this, however.

Though FECAICA/CICR signed to be the sponsor of CAISNET under the IDRC agreement, FECAICA personnel and members interviewed stated that they did not know how on-going costs would be funded because the issue simply had never been discussed.

The options for sustainability of the CU would be one or a combination of:

- the costs shared equally by all five FECAICA members as an additional membership charge
- an annual service fee charged to each CAISNET unit to cover the CAISNET coordinating unit's costs

What would happen to CAISNET if Canadian support ended?

The Executive Directors of Guatemala, Costa Rica and El Salvador indicated that they considered the pilot project showed the unit could be successful. They stated that they would attempt to continue the service but with reduced staff, (1 Director, 1-2 Technical advisors, and a part-time or shared secretary, with other staff members working on contract on as-needed basis). The directors for Honduras and Nicaragua confirmed their support for the unit. They stated, however, that there had not been enough client services to decide whether or not there was a demand in their country for these services, even though they stated there was a need.

None of the executive directors indicated that they were in a position to provide funding to pay for the coordinating unit, although when their units became self-sufficient they were not opposed to the idea of helping to cover the expenses of the unit, provided that they had some control over the unit's budget and some say in the regional activities that were being carried out.

For the coordinating unit, the directors felt that the network could be maintained though Internet, phone and fax communications on an as-needed basis. They stated, however, that the coordinating unit played a useful role in helping the units set up, become operational and carry out regional activities.

What are the estimated recurring costs of CAISNET?

It is impossible to determine a precise figure for the estimated annual operating costs of CAISNET. The reasons for this are the following:

- the five units report to their various donors - IDRC, BID, PAR - on their expenses to project budget only. No one reports on the total operating costs of the unit

- there is no common understanding of what comprises "recurring costs" that would need to be covered by the earnings of the unit and/or the contribution of the sponsoring organization when donor funding ends

- the reporting of "earnings" from clients is not consistent in all units. Some units report money collected net of incentives paid to staff or net of money paid to an outside consultant. These recurring costs of the units are, therefore, understated, as are the actual earnings.

The following assumptions have been used to estimate the costs of a unit in US dollars: director's salary of US $1,700 per month, a technical advisor's salary of US $1,200 per month, a secretary's salary of US $500, and social benefits @ 40% of salaries. In addition, office supplies US $1200 per year (US $120 month), communications US $3,000 per year (US $250 month), plus $200 per year for each additional advisor, promotion US $1,200 per year (US $100 mo) plus $300 per year for each additional advisor.

The assumptions below assume a unit of a director, secretary and the number of advisors as shown below.

BEST GUESS ESTIMATES OF COSTS US $

	Two Advisors	**Three Advisors**	**Four Advisors**
Personnel	77,000	97,000	117,600
Operating Cost	5,400	5,900	6,300
Estimated	**82,400**	**102,900**	**123,900**

The start-up costs for the units are assumed to be US $25,000 for equipment purchases, initial training of staff, needs assessment studies and office renovation if required.

In 1997 the total revenues for all five units reported to IDRC US $117,622 which is about 20% of the estimated cost of one unit. The rough sustainability calculation is, therefore, 20%.

The coordinating unit has been asked by the steering committee to report on sustainability of the units for the calendar year 1997. Their reports shows that Costa Rica was covering 14% of its costs, El Salvador 16% of its costs, and Guatemala 19% of its costs. The total costs of the units were not considered, however, only the portions contributed by IDRC and PAR.

The estimated cost of the coordinating unit is approximately Cdn.

$14,800 per month or $177,600 for the Director, three technical advisors, office rent and operating costs (see bridging report.) These costs are fully funded by donors.

The evaluator finds that the units and the network have not had a sharp managerial focus on providing business services to SMIs.

Recommendation: The network should be funded for the bridging period to concentrate on serving SMIs and improving its operational efficiency.

LESSONS LEARNED

SUMMARY

A Committee is an Inappropriate Project Partner: The coordination of the activities of national institutions supporting the SMI sector is best done in a committee, not in a project structure. A project requires one institution which is responsible for the project in its entirety.

Institutional Assesment Required: The selection of a project sponsor requires an institutional assessment of the partner's capacity as well as a project plan.

Project Design Structure Should Encourage Institutional Adoption of Project: If the expectation at the end of a donor's funding is that the project will continue as part of the institution's services, the project design should reflect this goal. The position of project director should be designed into the existing organizational structure, staff salaries and benefits should be decided based on the organization's salary scales and employment conditions, and the project budget expense lines should be the same as the organization's accounting system.

The End-of-Project Status Should be Clear at the Beginning: Assumptions about the end-of-project status in terms of results should be clearly stated.

Self-Sustaining Projects Require Management and Monthly Financial Reports Like Any Business: Setting up a project to become self-sustaining is like starting a business. If donors are not prepared to take on this type of management, they should not plan projects of this type.

Contract Structure Should Be Carefully Checked to Ensure it Does Not Distort Project and Institutional Structures. At best it should have no negative effect.

The existence of seven separate contracts for CAISNET did not support the intended idea of a network. Because the national units had no contractual responsibility to the coordinating unit, it was difficult to require common standards and operating procedures among the units.

Other lessons are highlighted in the report.

ANNEXES

HISTORICAL DEVELOPMENT OF THE NETWORK

[The evaluator invited Jorge Monge to prepare this history of the early years of the CAISNET project as he is the only person from the original founder's group still working on the project.]

BACKGROUND

In the late eighties IDRC, through its Corporate Initiative Branch (CIB) - Ottawa and LARO, funded various projects on applied research and development in Latin America. As part of these initiatives, IDRC/CIB-LARO and the Science and Technology Department of the Organization of American States (OAS), convened a meeting to evaluate the results and discuss proposals on how to promote the applied technology development of the region. During the meeting researchers from institution of Costa Rica and Brazil joined efforts and submitted a proposal to IDRC for the establishment of CODETI's initiative for Central America and the Caribbean in order to promote north-south and south-south transfers of technological knowledge. This proposal received the support of IDRC/CIB-LARO through a grant approved in 1991 on behalf of the Government of Costa Rica/CONICIT, where CODETI's office was located.

CODETI was established, following a legal investigation, as a legally registered Foundation in Costa Rica with a Board of Directors composed of representatives from the government, private and academic sectors. CODETI started to work in the region as a pilot project with the main goals of promoting the transfer of technology based on specific cases and evaluating the feasibility for the establishment of a Central American and Caribbean Network to promote the industrial and technological development of these regions. Studies were conducted during the initial stages in order to evaluate SMMs' demand for the industrial services offered by CODETI and the possible future network. Based on the findings, CODETI suggested promoting the establishment of national industrial support units and to start working in common methodologies in order to provide technical assistance in a regional network. Thus IDRC, through LARO and PRISM (the former CIB) - Ottawa, supported CODETI in the design of an initiative for the establishment of a regional industrial support project in Central America which led to the creation of NISUs/CAISNET in 1994.

In 1993, based on CODETI project findings and recommendations, IDRC and CODETI decided to seek the establishment of a partnership with Central American regional institutions to develop the regional network and the national industrial support units. During the pilot phase, CODETI performed an evaluation of suitable institutions at the national and regional levels for IDRC and assisted IDRC in approaching these institutions to discuss the units and network initiative. Since these Central American institutions had structural weaknesses, the project was also seen as a way to further institutional-strengthening based on specific project objectives. Among the 15 institutions considered, IDRC and CODETI approached the four most suitable ones - ICAAITI, CEFOF, FECAICA and FEDEPRICAP. It was finally decided to work with FECAICA and its national industrial chambers and associations since its membership was close to 20% of the SMMs in the region. These institutions needed to be modernized to enable SMM members to face the challenges of free trade agreements. Moreover, neither FECAICA nor any of its five national members were carrying out any cooperation projects at that time.

During the first network pilot project which started in 1992, CODETI/PRISM-LARO were considering different organizational models. Based on CODETI's project findings, the unit in Costa Rica was designed under a single institutional model choosing the CICR as the host for the unit. The President of CICR at the time was also FECAICA's President and supported setting up of a regional network. The units of Guatemala and Honduras were set up under a consortium model with FEPYME and COHCIT as grant recipients respectively. In the Guatemalan case, the Chamber of Industry (CIG), a member of FECAICA, was also a member of the unit's institutional consortium. In 1994, IDRC approved the funding for the units in Guatemala and Honduras through PRISM and for the unit in Costa Rica through PRISM-LARO. Later, in 1996, IDRC/SMMEIT (formerly PRISM), in Ottawa, funded the unit of El Salvador and in 1997 the unit of Nicaragua.

At the same time IDRC and CODETI initiated negotiations with FECAICA for the establishment of a regional "network" among the units to provide for the regional approach to industrial support described above. CODETI agreed with FECAICA's President at that time to propose building a partnership with the goal of promoting the industrial and technological development of the region. An agreement was signed between FECAICA and CODETI to promote the establishment of the RED ATI-CODETI, later called CAISNET. CODETI worked in the design of the network project based on studies carried out in the inception phase. From this it was clear that the methodological approach to be used needed to be be one based more on technology-demand than one that was supply driven. This was more likely to help SMMs identify their needs. The decision was made to work on the development of diagnostic tools to this end. CODETI then started the designing of an Industrial Diagnosis System for the improvement of SMMs' Competitiveness (SUDIAC is the Spanish acronym), developing and adapting different methodologies and tools under different IDRC grants.

In the technology transfer area, the work done through CODETI provided the background and rationale for the inception of another initiative, the Institutional Management Training Program (IMP), looking for the promotion and transfer of technology from Canadian institutions to ones in Central America and the Caribbean region. CODETI organized and hosted IMP's initial meeting in Costa Rica which was attended by some of APRO's members such as the Saskatchewan Research Council (SRC) and the Canadian Research Insititute of Quebec (CRIQ). Under this initiative CODETI facilitated training directors of the Guatemala and Costa Rica units at the Nova Scotia Research Foundation. In addition, the directors of technology-transfer offices from Costa Rican Universities and the Guatemala-based Technological Central American Institute (ICAITIU), received training in British Columbia, Manitoba, and New Brunswick centers. IMP supported IDRC's goal of continuing to build CODETI's framework for linking the units with Canadian institutions which could provide technological backstopping for specific industrial needs.

Based on the agreement signed between FECAICA and CODETI and the approval by the Board of FECAICA of the project concept in November, 1994, CODETI proposed to IDRC-PRISM the holding of a meeting in order to finalize the CODETI-CAISNET network proposal with the participation of CMA, IDRC, APRO, FECAICA, CODETI, the Industrial Research Assistance Program (IRAP) and the Canadian Environmental Industry Association (CECA). The meeting was conducted and hosted by IDRC and took place in February, 1995, with the participation of APRO's CEO, SRC, CRIQ, CODETI, FECAICA and IDRC. The outcome of the meeting was the decision to submit to IDRC a proposal for the second phase of the initiative for the industrial and technological development of Central America which was firmly established then under the name of CAISNET Project Proposal, for which final financial and project approval was received from IDRC in March 1995.

The original CAISNET budget was for an 18 month $2.2 M proposal. Due to budget cuts, however, IDRC could only provide $394,000 towards this initiative which includes the Canadian costs. The IDRC budget was designed to include the Canadian partners - APRO - in order to fulfil the criteria for the PAR proposal for CIDA's Project. PAR was formally launched in 1996. The CMA was asked to be a member of the newly established CAISNET Steering Committee. Scaled back were elements relating to technology transfer, joint ventures, Canadian support and monitoring to preserve the essential elements: establishing the coordinating unit as a network hub, supporting the national units in start-up,and testing and adaptation of the diagnostic tools.

Later that year, CODETI's President visited two APRO members, APRO's head office, and participated in the meeting in Ottawa at which the Canadian Technology Network was launched by the Government of Canada. The meetings held served as preparatory work with IDRC and the Canadian partners to enter into the first bid of the PAR program that was going to take place at the end of the year. CODETI then prepared a preliminary draft proposal and with IDRC support, through the allocation for the remaining CAP funds from CODETI's first grant, a work session was carried out to discuss this draft in Montreal with the participation of representatives from SRC, ITC, CRIQ, APRO, CEO, CODETI and IDRC. The proposal was further developed by CODETI and submitted for discussion and approval to the CAISNET Steering Committee (FECAICA, IDRC, APRO, CODETI, CMA) during its first meeting held in Costa Rica in November, 1995. CODETI finalized the proposal which was officially submitted to the PAR Program for first tender of $1.7 M on December 1995. PAR approved the project after budget negotiation. The total amount of the project was $ 1.6 with the PAR contribution of $1.1 M.

CONTACTS

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TERMS OF REFERENCE FOR THE
EVALUATION OF THE CENTRAL AMERICAN INDUSTRIAL SUPPORT NETWORK (CAISNET) AND THE
FEASIBILITY STUDY FOR A CENTRAL AMERICA REGIONAL SME SUPPORT INITIATIVE

1. Background

1.1 General Context

There are a number of important Canadian aid initiatives, targeting the productive sector, currently ongoing in Central America. These initiatives were planned and undertaken at different times, by different groups/organizations and with different foci. Some of them are coming to termination in the near future and our preliminary observations tend to indicate a substantial impact that warrants further support. Two of these initiatives, led respectively by CIDA and IDRC, are complementary and integrated. They are presented as separate below for record purposes but will be referred to under the single name of CAISNET, as an initiative implemented by FECAICA (the Regional Chamber of Industry for Central America) and the ALLIANCE of Manufacturers and Exporters of Canada. CIDA and IDRC wish to undertake jointly an evaluation of this initiative and determine the feasibility of a new regional initiative supporting the modernization of the productive sector and building upon the overall Canadian related investment in the region. Summary information on this investment follows.

1.1.1 PAR

PAR (Programa de Apoyo a las Iniciativas Regionales) covers the whole region of Central America, including Panama and Belize. It has a budget of $14 million and is half way through implementation. PAR is focused on equitable economic modernization. It does not seek to modernize the economy as much as to bring groups of small producers into the modern economy. The focus is centered on equity to ensure the long-term value of the project.

1.1.2 PAR/CAISNET

This relates to one of the initiatives undertaken under PAR. The Canadian partner, ALLIANCE of Manufacturers and Exporters of Canada, is working with national technology support organizations through FECAICA to provide technology support to small manufacturers. This activity, initiated by IDRC (International Development Research Center) earlier (see below), is aimed at strengthening the institutional base in Central America and provides specific support to small factories to help them convert, modernize, or upgrade systems and equipment.

1.1.3 CIIC

This relates to a new bilateral project with Costa Rica called the Canadian Initiative for Industrial Competitiveness in Costa Rica. The project has a budget of $9.5 million and was mobilized in the early summer of 1997. It will provide financing assistance to small- and medium-size enterprises to access services and equipment for the modernization of their operations, to become more efficient and competitive in an environmentally-sound manner. It will also identify institutional constraints or bottlenecks to the modernization of the productive sector. The project's strategy requires the Canadian Executing Agency to work with local partners already dedicated to support the modernization of small and medium size enterprises. The project will also promote Canadian technology in Costa Rica and the region.

1.1.4 Regional Electrical Energy

This project, with a budget of $25 million, was mobilized in the fall of 1997 and will last for 5 years. It will (1) assist as needed in the practical implementation of reforms already under way in each Central American country, intended to lead to improved efficiency, private sector participation, and improved predictability and equity in the supply of electricity and (2) help the countries take advantage of the cost savings possible through regional collaboration in electricity. The project, while maintaining a regional focus, will also be able to carry out activities specific to only one or more countries. This flexibility is necessary due to the great disparity in the level of electrical development between the different Central American countries. It is expected that this project will generate a lot of opportunities for the productive sector, including cooperatives, to contribute to expanded popular access to electrical energy.

1.1.5 IDRC/CAISNET

The CAISNET initiative is sponsered by both IDRC and CIDA through PAR as mentioned above. CAISNET is coordinated by FECAICA (the Federation of Chambers and Industry Associations of Central America) and CODETI (which manages the Network on a day-to-day basis and has developed a range of diagnostic tools used in the Units, called UNATIS, located in national Chambers/Associations of Industries). In turn, the network is linked with the Alliance of Manufacturers and Exporters of Canada, in order to provide technical assistance and training for Units staff and to develop business opportunities between Central American and Canadian firms. One important product of this project has been the development of a SME diagnostic tool which is relatively easy to use, appears to focus on real problem areas and the use of which provides a source of income for the UNATIS. IDRC/CAISNET has a budget of $1.8 million over 4 years and is planned to end in the fall of 1998.

2. Reasons for the Evaluation and Feasibility Study

2.1 Reasons for the CAISNET evaluation

Although the contributions by IDRC and CIDA(PAR) to the CAISNET initiative are separate, both efforts are complementary to one another and have become well-integrated over time. Funding from both sources is scheduled to terminate by the fall of 1998. It is a formal requirement for IDRC to undertake an evaluation of such initiatives, not only to draw lessons from the experiment but also to identify options for the sustainability of the outputs/results achieved, including the possibility of continued IDRC support. On the PAR side, a mid-term review of the initiative has already been completed and served to re-align some of its activities. A further evaluation would not be absolutely necessary other than to draw lessons for the future.

2.2 Reasons for the Central America Regional SME Support Initiative Feasibility Study

The design team for the Canadian Initiative for Industrial Competitiveness in Costa Rica (CIIC) had considered the potential for replicating the CIIC in the region. However, available data was insufficient to establish the readiness of the other countries of the region for such productive-sector support. It was therefore proposed and approved, as part of the CIIC approval document, that the project's budget would provide for the feasibility study of such a regional initiative to be undertaken. It was only later that the project team realized the extent of the complementarity between CIDA and IDRC's initiatives, hence the now-proposed joint approach. Based on the conclusions and recommendations of the feasibility study, decisions will be made by CIDA and IDRC regarding the launching of a regional initiative in support of SME development and modernization, including a focus on the elimination of related constraints, and regarding the implementation of bridging activities between the completion of the current CAISNET activities by IDRC and PAR, and the launching of an eventual regional project.

3. Clients of the Evaluation and the Feasibility Study

3.1 The Evaluation Study

The primary and secondary clients of the evaluation are CIDA/PAR, IDRC, CAISNET, FECAICA, ALLIANCE, CODETI as well as partner Governments of the region. Secondary clients are SMEs, institutions and organizations that are also directly or indirectly involved in Canadian initiatives. Their expectations are: determination of the performance of CAISNET and recommendations to improve this performance and to ensure growth and sustainability.

3.1.1 More specifically, expectations of the primary clients are:

3.1.1.1 To know whether the project is achieving its planned results, within budget and on schedule. If not, indicate the reasons and remedial action required, if applicable;

3.1.1.2 To determine whether the UNATIS can survive and prosper once the project has terminated and under what conditions;

3.1.1.3 To determine the degree to which the project has contributed to the institutional strengthening of local host organizations (Camaras, Industry Associations, etc.) and of CAISNET;

3.1.1.4 To identify constraints that are not addressed through the project and which may be slowing down or blocking SME development.

3.1.2 Expectations for the secondary clients are:

3.1.2.1 To determine the degree to which the project has contributed to the institutional strengthening of their local host organizations (Camaras, etc.);

3.1.2.2 To determine the level of satisfaction of the SMEs which have used UNATIS' services;

3.1.2.3 To determine the contribution of the project to the facilitation and the setting-up of partnerships between Canadian and Centro-American firms.

3.2 The Feasibility Study

The primary clients of the feasibility study are CIDA, IDRC and partner Governments of the region. The secondary clients would be all the eventual beneficiaries of such a regional initiative, i.e., the productive sector and all the institutions and organizations that relate to it. Their expectations are the identification of constraints experienced by SMEs nationally and/or regionally, inadequately dealt with by existing projects/programs, and identification of possible corrective measures.

3.2.1 More specifically, primary clients expectations include:

3.2.1.1 Identification of constraints (institutional, regulatory, organizational or others) affecting or blocking SME development and progress;

3.2.1.2 Identification of programs/projects addressing such constraints or obstacles;
3.2.1.3 Identification of entities having launched initiatives to resolve the difficulties faced by SMEs;
3.2.1.4 If no initiatives are in place with which CIDA/IDRC could be associated, identification of potential measures that could contribute to alleviating constraints, including institutions that could participate to specific initiatives, budgets and any further actions required for completing the feasibility analysis of the identified measures, as required.

3.2.2 Expectations of secondary clients are:

3.2.2.1 Identification of measures to facilitate SME development;
3.2.2.2 Proposals to remedial actions through donor initiatives;
3.2.2.3 Participation in the definition of such initiatives;
3.2.2.4 Design of actions for putting initiatives in place.

4. Scope and Focus

4.1 CAISNET Evaluation

4.1.1 Scope: To assess whether the objectives and expected results of the project are being realized as planned. More specifically the following issues will be addressed:

4.1.1.1 Are UNATIS satisfying the needs of their target markets and to what extent, including gender equity and environment requirements?
4.1.1.2 Are UNATIS operating efficiently within Cameras and Associations of Industries and satisfying the administrative and operational requirements of host organizations?
4.1.1.3 Are UNATIS developing a sustainability basis within and outside the CAISNET operational context for the post CAISNET project phase?
4.1.1.4 To what extent do the diagnostic tools developed by CODETI/IDRC contribute to the effective functioning of the UNATIS, to what extent will it form the basis for sustainability of the UNATIS in the future, and is there an appropriate intellectual property framework in place to govern its dissemination?
4.1.1.5 Are UNATIS contributing to the efficiency and operational capacity of CAISNET for the strengthening of Central America institutional and private business industrial networking?
4.1.1.6 Are UNATIS facilitating the establishment of partnerships between Canadian and Centro-american firms?

4.1.1.7 Overall, are these leading towards the kinds of results expected from the project?

4.1.1.8 Did the project improve the productivity and competitiveness of small- and medium-size Central American enterprises?

4.1.1.9 Are small-and medium-size enterprises more competitive due to the project interventions?

4.1.1.9.a Have the project's interventions proven to be sustainable?

4.1.1.9.b Based on the evaluation of the efficiency and effectiveness of the project, recommendations will be made with regard to whether the project should be continued after the planned deadline of September 1998. If affirmative, appropriate arrangements under which it should be pursued will be recommended.

4.1.2 Focus: The main issues of focus are:

4.1.2.1 Concerning UNATIS:

- Capacity of UNATIS to evaluate, target, reach and service the SME market.
- Determination of the capacity of UNATIS to identify the specific needs of SMEs
- Capacity of UNATIS to satisfy identified needs and SME demands
- Quality of service and degree of satisfaction of SMEs, especially returns to firms.
- Track record to date: number of SMEs serviced, improvement of operations and bottom line of SMEs, credibility in business circles and with Canadian companies and organizations
- Sustainability (cost recovery, chambers'/associations' support and exploration of other avenues)
- Capacity for networking and quality of these linkages
- Promotion of gender and social equity
- Development of partnerships with Canadian companies
- Promotion and support of environmentally-respectful industrial activities
- Integration of UNATIS to FECAICA SMEs' promotion and development support activities
- Efficient management of IDRC and PAR resources
- Cooperation with other service providers (private, public, institutional, etc.
- Development of expertise of UNATIS
- Corrective actions as appropriate

4.1.2.2 Concerning FECAICA:

- Establishment of networking arrangement in support of UNATIS
- Utilization of networking facilities by UNATIS and SMEs

- Setting up of linkages regionally
- Setting up of linkages with Canadian institutions and/or organizations such as Alliance of Manufacturers and Exporters of Canada
- Identification, facilitation and development of partnerships between SMEs and Canadian companies
- Strategic positioning of CAISNET on the regional and local markets
- Development of cooperation with other donors, bilateral and multilateral
- Competitiveness/complementarity of CAISNET vs other donor initiatives and/or private sector activities (consulting firms, NGOs, etc.)
- Development and implementation of systems, procedures and administrative and financial arrangements for managing UNATIS, CAISNET networking and partnering activities countrywise and regionally.
- Efficient management of IDRC and PAR resources
- Corrective actions as appropriate

The above issues will be addressed in the context of approved project budgets, inputs/outputs definitions, targeted results and identified indicators, and project documentation used by IDRC (a project operation plan, annual plans, etc.). If no specific indicators have been identified, they will be established at the time of the evaluation.

4.2 Feasibility study for a Central America Regional SME Support Initiative .

Based on the evaluation findings and recommendations, guidance will be provided as to the feasibility of any possible future initiative, its form, focus and cost. This should take into consideration the following:

4.2.1 Identification of institutional and other constraints not addressed and/or underestimated, impacting negatively on SME development and performance;

4.2.2 Determination of whether and how such constraints could be eliminated or alleviated;

4.2.3 Determination of whether and to what extent existing Canadian programs such as CAISNET, PAR and CIIC could be used to address these constraints;

4.2.4 If not, determination of measures that are required;

4.2.5 Determination of whether joint IDRC/CIDA initiatives would be feasible to bring about corrective/alleviating measures;

4.2.6 If yes, recommendation of action plans for IDRC/CIDA;

4.2.7 Alternatively, recommendation of measures for independent future programming as advisable;

4.2.8 Reviewing of other donors' initiatives in the SME field;

4.2.9 Identification of potential collaborative ventures with such initiatives, as may be applicable;

4.2.9.a If a future regional CIDA project appears feasible and is recommended, what will be the interim bridging activities required to maintain gains already made?